The Economist

20020629

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers
Subscribe

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK

OPINION
Leaders
Letters to the editor

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings
Cities Guide

SURVEYS

BUSINESS
Management Reading
Business Education
Executive Dialogue

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

PEOPLE
Obituary

BOOKS & ARTS
Style Guide

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index

DIVERSIONS

RESEARCH TOOLS

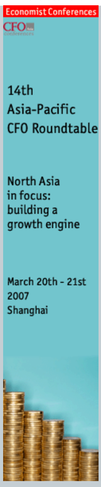
CLASSIFIED ADS

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
Screensaver

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and
Business Gifts

Advertisement



Print Edition June 29th 2002

George Bush's plan for peace
Without repairs, America's one-sided peace "vision" will do little to bring peace to the Middle East ... More on this week's lead article

The world this week
Politics this week
Business this week

Leaders
Middle East
George Bush's plan for peace

The G8 and proliferation
Getting what you pay for

Latin America's economies
Here we go again

WorldCom
Accounting for change

Hong Kong
Could be worse. Was better

Letters
On Germany, fear of terror, Joseph Stiglitz, bullying, football, spin

Special Report
The Middle East
Changing a regime by diktat, maybe

Bush's speech
What he said, and what he didn't

The West Bank under occupation
Reconquered land

Israel's response
Happy days are here again

European and Arab response
Polite dismay

The genesis of the speech
Home thoughts abroad

United States
Policing the Big Apple
Winning the war on crime—for the moment

Crime
Nine years in remission

Medicare
Say yes to drugs

Fire and drought
Desiccation row

Capital punishment
The ebbing of death

Senate campaigning
Fighting the good fight

Lexington
The McAuliffe effect

The Americas
South America's financial crisis
A region prays it will not slide down Argentina's slope

Venezuela
Middle-class and armed

Human rights in Mexico
Mary Robinson comes calling

Canada's Anglicans
To bless, or not to bless?

Asia
Malaysia
The long goodbye

Hong Kong and China
Tung's cosmetic ministers

India's economy
Marching on

India and Pakistan
The absence of war

Middle East & Africa
Zimbabwe
From breadbasket to basket case

Kenyan corruption
The view from the slums

Egypt's Islamists
Kinder, gentler Islam

Iran and earthquakes
Learning from the tragedy

Europe
Land reform in Russia
A shiny free-market blueprint. But will it work?

Mainland Russia, Kaliningrad and the EU
Between two worlds

After the EU summit
Snore, snore

Spain's politics
Warnings for Aznar

Another French affair
Spookgate

Italian labour law and politics
Berlusconi 2, Cofferati 1

German labour-market reform
Here are the ideas. Now for action?

Co-operation in ex-Yugoslavia
Little by little

Charlemagne
Poland's populist, Andrzej Lepper

Britain
Immigration
Who gains from immigration?

London's skyline
Shame about the view

Diet and crime
Keep taking the tablets

Road safety
High on speed

Football
England wins World Cup

Education, skills and productivity
Jack of no trades

Bagehot
Livingstone the loner

Articles flagged with this icon are printed only in the British edition of *The Economist*

Previous print editions
Jun 22nd 2002
Jun 15th 2002
Jun 8th 2002
Jun 1st 2002
May 25th 2002
More print editions and covers »

Subscribe
Subscribe to the pri
Or buy a Web subsc
full access online
RSS feeds
Receive this page by

E-mail newsletters
Weekly alerts
Special offers

A survey of America's world role
Present at the creation
The acceptability of American power
New friends, new opportunities
Saddam and his sort
Building countries, feeling generous
Our law, your law
Imperial overstretch?
New world ahead
Sources and acknowledgments
Offer to readers

Business
WorldCom
Another cowboy bites the dust

Vivendi
Lip sink

OPEC and Russian oil
Slush money

BP in Indonesia
Sociologists before geologists?

America's airlines
Pilot's cap in hand

Customer loyalty
Caveat vendor

Biotechnology
Martha and the market

Face value
Merrill's new bull

Special Report
Privatisation in Europe
Coming home to roost

Finance & Economics
WorldCom and financial markets
Another scandal, another scare

Latin American markets
Spreading risk

Credit Suisse and Winterthur
Holey cow!

Europe's economies
Novelty knocks

Mizuho Bank
Big and bumbling

Economics focus
Bidding adieu?

Science & Technology
Nuclear power
Pebble dashed?

Cancer diagnosis
Close up and personal

Materials science
Safe deposits

Early human culture
But is it art?

Books & Arts
Diplomats in Russia
Side by side with Yeltsin

Japanese history
Early encounters

Islam
Fear and loathing

America's legal system
Big, and getting bigger

Cycling memoirs
Feeling the burn

Brancusi's sculpture
Never forget

Obituary
Esther Lederer

Economic and Financial Indicators
Overview
Output, demand and jobs
Prices and wages
Health spending
Money and interest rates
The Economist commodity price index
Stockmarkets
Trade, exchange rates and budgets
Share prices by sector

Emerging-Market Indicators
Overview
Oil reserves
Economy
Financial markets

Don't let
the
information
age

Advertisement

Fed up with gravy trains, salami tactics and upsetting the apple cart?

Classified ads

Jobs

Senior Operations Manager, Financial Markets
Terms of Reference IFC Private Enterprise Partnership Background ....

Business / Consumer

WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders

WSI Internet - Start Your Own Business
Business Opportunity - WSI Internet Start Your Own Business! Profit....

Property

WORK FROM HOME
SALES REP. NEEDED A SALES REP IS NEEDED TO BE WORKING FROM HOME FOR EGOBOLIC TIMBERS INTL. YOU....

Jobs

Tenure Track Position Available
Assistant Professor of Geography Tenure-track Assistant Professor position, starting....

Tenders

Invitation for Prequalification
Hashemite Kingdom of Jordan Ministry of Finance for Supply and Implementation ....

Sponsors' feature

About sp

All browsers welcome

Do
ge

Copyright © The Economist Newspaper Limited 2007. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Produced by = ECO PDF TEAM =
Thanks xxmama

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Politics this week

Jun 27th 2002
From The Economist print edition

Trying again

Reuters

President George Bush delivered his much-awaited speech on the Israeli-Palestinian conflict. He reiterated his vision of two states, but made progress, even towards a “provisional” Palestinian state, conditional on the Palestinians getting themselves new leaders and reforming institutions and security services. Israel's government failed to hide its jubilation; the Arabs tried to make the best of a bad job, and Europeans politely questioned if it was politic to demand Yasser Arafat's removal. Israeli troops re-occupied many West Bank towns.

See article: The Middle East

An **earthquake** hit Qazvin province in north-west Iran, killing about 230 people and making 12,000 homeless. American humanitarian aid was offered and accepted.

See article: Iran and earthquakes

Under a law aimed at promoting land reform, **Zimbabwe's** commercial farmers were barred from tending their crops and given 45 days to leave their homes. Half the population faces starvation, according to the World Food Programme.

See article: Maoist madness in Zimbabwe

A **Tanzanian passenger train** rolled backwards down a slope and crashed into a freight train, killing at least 280 people and injuring 900 more.

America recognised Marc Ravalomanana as president of **Madagascar**. Mr Ravalomanana says he won an election in December, but his rival, Didier Ratsiraka, disputes the result. Mr Ratsiraka's supporters have blockaded the capital, Antananarivo, and fought with Mr Ravalomanana's.

Cameroon postponed its parliamentary election, an hour after it started, until June 30th. President Paul Biya insisted that the delay was to ensure transparency; his opponents had dark thoughts about the final of the World Cup distracting voters from what might be going on.

Judge not

America's Supreme Court ruled that a jury, not a judge, must decide whether a defendant lives or dies, giving new hope to 168 inmates on **death row** in five states where the decision is currently made by judges. Four other states, where juries advise judges, could also be affected.

See article: The ebbing of death

A new **FBI** survey found that crime increased in America in 2001, the first rise in nine years. The number of murders increased by 3%.

See article: Crime is going back up

A federal judge entered a plea of not guilty for Zacarias Moussaoui, the only man to be charged in connection with the **September 11th attacks**, arguing that the defendant did not understand the implications of pleading “no contest” as he had wanted. Mr Moussaoui, who is representing himself, was also denied a change of venue for his trial.

George Bush visited Arizona where one of the worst **wildfires** in recent history has burned more than 360,000 acres, destroyed 350 homes and forced about 30,000 people to be evacuated.

Reuters

See article: Fire and drought

The notoriously liberal ninth-circuit court of appeals in San Francisco found the **pledge of allegiance** to be unconstitutional. It ruled that it was illegal to ask schoolchildren to vow fealty to “one nation under God” saying it was equivalent to a professsion that America was a nation under Jesus. The dollar bill—which professes that “in God we trust”—could be next.

Brazil's economic weakness and a handy lead in opinion polls for the presidential candidate of the populist Workers Party, Luis Ignacio da Silva, sent the country's bonds and currency reeling. Investors are concerned about Mr da Silva's commitment to honouring the country's debts.

See article: Latin America's financial crisis

In **Argentina**, two people were killed and at least 17 injured as police fought hundreds of anti-government protesters in Buenos Aires.

Siesta in Seville

EU leaders met in Seville, and went away having decided virtually nothing. Perhaps they could meet virtually in future, the pragmatic French suggested.

See article: The European Union

Spain's parliament passed a law to permit the banning of the political arm of its Basque-separatist terrorists, **ETA**.

See article: Warnings for Spain's Aznar

At its summit in Canada, the **G7** group of rich nations accepted Russia as a member of the club, the new **G8**. They had earlier declared that Russia is a market economy.

See article: The G8 Summit

Russia's parliament passed a bill to provide a code governing sales of farmland. Though most land is by now already privately owned, this is the first solid step to a land market since 1917. If bureaucrats let it take effect.

See article: Creating a farmland market in Russia

An official commission proposed radical changes to **Germany's** soft-hearted rules on unemployment benefits. They could halve joblessness within three years, it said. If politicians put them into effect.

See article: How to cut German unemployment

Britain and France agreed—in principle—on steps to staunch the flow of **asylum-seekers** across or under the Channel. Britain, eager for financial penalties on poor countries that will not take their migrant citizens back, will pay France to install detection equipment and new fences. France—in time—will fix a date for closing the Sangatte centre, base for most of the migrants.

See article: Who gains from immigration?

Italy's government got the two lesser trade-union confederations to accept minor changes in the **hiring-and-firing** law. The bigger CGIL still said no.

See article: Italy's labour law and politics

Continuity in Malaysia

Reuters

Mahathir Mohamad, **Malaysia's** prime minister since 1971, said he would step down in October next year. His deputy, Abdullah Ahmad Badawi, is to succeed him.

See article: Malaysia

Ten Pakistani soldiers were killed in a gunfight with suspected **al-Qaeda guerrillas** near Wana, close to the border with Afghanistan. Two guerrillas were killed. Many al-Qaeda members are believed to have moved into Pakistan since the fall of Afghanistan's Taliban government.

Pervez Musharraf, **Pakistan's** president, unveiled constitutional reforms that would let him appoint and dismiss the prime minister. An army-dominated National Security Council is also planned.

The authorities in **Hong Kong** refused entry to a human-rights campaigner, Harry Wu, and briefly detained a prominent scholar, Perry Link. Both men are hated by China.

See article: Hong Kong five years on

A long-standing border dispute between **Thailand** and **Myanmar** flared up when Myanmar's state-run newspapers made critical references to the Thai monarchy. “We can stand their stray shells on our soil, but we can't stand insults to our monarchy,” a government spokesman said.

Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Business this week

Jun 27th 2002
From The Economist print edition

Bad business

WorldCom, a company that once epitomised the telecoms bubble, revealed that it had overstated profits by $3.8 billion over the past five quarters, after what the Securities and Exchange Commission called "accounting improprieties of unprecedented magnitude". Almost inevitably, WorldCom was audited by Andersen. The company, saddled with debts of $30 billion, immediately sacked 17,000 staff—including its chief financial officer—but may not escape bankruptcy.

See article: Another cowboy bites the dust

News of America's latest corporate misdeeds made **financial markets** around the world jittery. Most stockmarkets fell sharply; and the dollar also suffered. America's currency hit a 28-month low against the euro, briefly approaching parity.

See article: World economy

A former chief executive and two senior bosses of **Rite Aid**, an American pharmacy chain, were charged with a variety of offences relating to an accounting fraud that inflated profits in the late 1990s. The company eventually restated profits by the then record sum of $1.6 billion.

Adelphia Communications, a troubled cable-TV group, filed for Chapter 11 bankruptcy. The group's founder, John Rigas, had already been dismissed from the board along with three family members; all are under investigation over huge personal loans they had taken out from the company.

The full extent of American **corporate malfeasance** was revealed in a survey of top executives. Although 99% of them pronounced themselves to be honest in business, some 82% admitted to cheating at golf, even though huge pay-packets and enormous bonuses were not at stake.

Speaking French

Alcatel, a French telecoms-equipment maker, issued a profit warning and announced a fresh restructuring plan aimed at further cost savings, over and above those it hopes to make from 30,000 previously announced job losses. The company's shares fell by 16%.

France Telecom suffered the indignity of a downgrade of its credit rating to near-junk status. Despite the company's efforts to tackle its prodigious debts, borrowing has ballooned, leading to speculation that its biggest shareholder, the French government, may yet have to bail it out.

Jean-Marie Messier held on as chairman and chief executive of **Vivendi Universal**, despite the departure from the media group's board of his friend and erstwhile backer, Bernard Arnault. Mr Arnault, chairman of LVMH, a luxury-goods group, had reportedly run out of patience with Mr Messier's management style. Yet Mr Messier won a vote of confidence from his remaining board members; the company's shares took another hammering.

See article: Messier's mis-statements

Rupert Murdoch's hopes of controlling Italian pay-TV are foundering. A deal to take over **Telepiu** from Vivendi Universal for *euro*1.5 billion ($1.5 billion) and unite it with NewsCorp's Stream had depended on finding a partner to assume 50% of the business, allowing NewsCorp to avoid consolidating the merged firm's debts on to its books. But Mr Murdoch has been unable to find a willing partner.

Parma's cheese makers rejoiced after the European Court of Justice ruled that cheap copies of their famous product could not be called **parmesan**. The existence of facsimile parmesan had long grated with traditional cheese producers.

Defence spending

Northrop Grumman may raise its offer for **TRW**, an American defence and space business, from $7.2 billion in order to get its hands on the company's military assets. However, three other defence giants—BAE, Raytheon and General Dynamics—have also signalled bids for TRW's military operations, pointing to the start of a bidding war.

A joint venture between **Northrop Grumman** and **Lockheed Martin** won a contract worth up to $17 billion over 30 years from the American Coast Guard to supply ships and aircraft to beef up protection of America's shores. The Coast Guard is soon to come under the authority of the new Department of Homeland Security.

WPP, the world's leading advertising company, issued a profit warning. The news heightened fears that advertising had not shaken off the effects of the world's economic slowdown and the aftermath of September 11th; a prolonged advertising recession seems inevitable.

America's consumer boom, and a round of heavy cost-cutting, came to the aid of the American half of **DaimlerChrysler**. The company said that Chrysler was motoring towards a modest profit in 2002, after an operating loss of $1.2 billion in 2001.

Stay informed this week and every week

Sign up to receive *The Economist*'s round-up of business and politics each week. These e-mail newsletters are free and will keep you up-to-date on the latest developments around the world. Sign up here.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION LEADERS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Middle East

George Bush's plan for peace

Jun 27th 2002
From The Economist print edition

Without repairs, America's one-sided peace "vision" will do little to bring peace to the Middle East

Get article background

TO A world that had been longing for an all-powerful America to rescue the Israelis and Palestinians from their self-inflicted purgatory, it was the dampest of damp squibs. Even Israelis admitted that the peace plan George Bush and his divided administration set forth this week could just as well have been written by their own prime minister, Ariel Sharon. Yes, Mr Bush's speech held out the possibility, within three years, of an independent state for the Palestinians, and a "provisional" state, whatever that might mean, even sooner. But the promise was hedged around with a thicket of contradictory, and arguably impossible, conditions.

The Palestinians will first have to elect a "new and different" leadership; Yasser Arafat, though elected, is now it seems beyond the pale. They will have to turn territories that are under renewed Israeli military occupation into a true democracy, with an independent judiciary, helped along, says a straight-faced Mr Bush, by Arab states that have never managed to become democracies themselves. By implication, Mr Sharon is relieved of any obligation to negotiate a political settlement until this improbable transformation comes to pass. There was no reference in Mr Bush's speech to a previously promised international peace conference, nor any immediate call on Israel to reverse this week's re-occupation of towns and villages ceded to Mr Arafat under the Oslo accords.

Who are the bad guys?

The speech was not only a disappointment. It was also, especially in the eyes of non-Americans, a puzzle. Why such a feeble plan? Why such faithful echoing of Israeli positions? Unlike Bill Clinton, who was passionate about the Jewish state, Mr Bush is after all no Zionist. His father was one of the few presidents ever to use American muscle on its often awkward ally: after the 1991 Gulf war, America's withholding of loan guarantees helped force the Likud government of Yitzhak Shamir to peace talks in Madrid. Oil has been good to the Bush family, so the Bushes have been good to Saudi Arabia, which has begged Mr Bush to do more for the Palestinians. After September 11th, is it not plainer than ever that America must heal a sore which, unattended, poisons its relations with the entire Muslim world? A few months ago Mr Sharon himself was so worried about the fidelity of Mr Bush that he pleaded with America not to appease the Arabs by sacrificing Israel the way the democracies sacrificed Czechoslovakia in 1938.

Most of Mr Bush's critics will be tempted to explain this week's sharp pro-Israeli turn by reference to America's domestic politics. There is something in this. America has a well-organised Jewish lobby, supported nowadays by conservative Christian groups; the president is preparing for November's mid-term elections, with control of Congress and the fate of his brother Jeb in Florida in the balance. All the same, the Jewish lobby would count for little if Americans at large felt the way most Europeans seem to about the rights and wrongs of the Middle East. The fact is, they don't. The American administration, and the governments of Europe and the Arab world, may agree on the need to create a Palestinian state alongside Israel in the West Bank and Gaza. But they do not agree on who the bad guys are. And this

makes all the difference.

Rejecting the offered hand

Americans have long shown a partiality to Israel. But the Bush administration is influenced in particular by three recent failures on the Palestinian side, especially the mistakes of Mr Arafat himself. His first mistake was his failure to grab at Mr Clinton's attempt two years ago to rescue his Camp David initiative by proposing a Palestinian state in Gaza and 97% of the West Bank, with a capital in East Jerusalem. Mr Arafat's prevarication was not just a blow to Mr Clinton; it haunts the Bush administration too. If even that plan was not good enough, what point in pressing for a final settlement now, when trust has collapsed and the gap between the demands of the two sides has grown even wider?

Mr Arafat's second mistake was to renege on the agreement he sealed when he shook Yitzhak Rabin's hand at the White House in 1993. In return for taking over the government of the populated Palestinian areas, and a promise of statehood to come, Mr Arafat undertook to settle future differences by negotiation, not violence. After Camp David he nonetheless chose to exploit and encourage the *intifada*, even after what began as spontaneous riots against Israeli soldiers degenerated into a campaign of atrocities against Israeli civilians. Mr Arafat no doubt hoped a bout of violence would deliver better terms than he had been able to extract at the negotiating table from Ehud Barak, Mr Sharon's risk-taking predecessor. Instead it destroyed Israel's peace camp, ensured the election of Mr Sharon, and won American converts to Mr Sharon's contention that the Palestinian leader is an incorrigible terrorist, never to be trusted or bargained with.

Last, Mr Arafat compounded these strategic failures by making the grave tactical error of messing Mr Bush's people around. A stream of emissaries, from General Anthony Zinni to Colin Powell, the secretary of state, returned from meetings feeling manipulated and lied to. Mr Arafat would claim to have arrested wanted terrorists, only for them to show up unrestrained on the streets. A nearly final straw was the Palestinian Authority's attempt to breach the Oslo agreement by smuggling in a shipload of arms from Iran, of all places. After September 11th Mr Bush told world leaders to choose whether they were with or against America in its war against terrorism. Having sided with Saddam Hussein in 1990, Mr Arafat took care this time to say that he was with the Americans. But to Mr Bush's mind, the *intifada*, the arms smuggling and above all the suicide bombings eventually pointed the other way.

America's frustration with Mr Arafat is understandable. But if Mr Bush seriously expects the Palestinians to do away with their own leader at America's behest, he will need to do a great deal more to show the Palestinians that America itself can be trusted. Naturally, this does not require “sacrificing” Israel. It does require making it clear, as Mr Bush has not, that American policy is dedicated to a two-state solution in which the Palestinian state will be worthy of that designation.

For example, this week's speech should have said, but didn't, that the “secure and recognised” borders to which Israel eventually withdraws should be based on those of 1967. It failed to say, but could have, that Israeli settlement of the occupied territories is illegal, incompatible with a two-state solution, and should be stopped right away. These omissions stem from a reluctance to give the Palestinians any gain that might be construed as a reward for terrorism. But given Mr Sharon's refusal to dismantle a single settlement, and his appetite to build more, they will be construed instead as evidence that Mr Bush accepts the Likud line, certainly a delusion, that the Palestinians, once rid of their troublesome president, can be fobbed off with little more than a bantustan.

Can anything good be said for the speech? Like Wagner's music, it is not all as bad as it sounds. Mr Bush has told Israel that the Palestinians need a state, and the Palestinians that they cannot win one through terrorism. The very vagueness of the plan leaves room for later improvement. But a suspicion must remain that, although he says he will at last grasp the nettle of Palestine, the president's true intention is to leave it unattended while he turns to other business. His first step has certainly been a disappointing one.

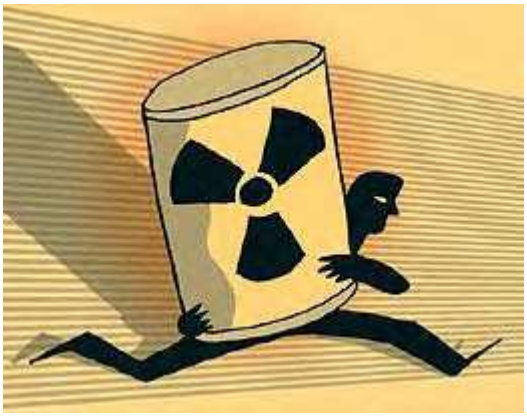
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The G8 and proliferation

Getting what you pay for

Jun 27th 2002
From The Economist print edition

Europe and Japan must help secure Russia's dangerous weapons materials faster



IT TOOK the terrorist attacks of September 11th to alert the world to the even more horrific prospect that, if suicidal terrorists were to get their hands on weapons of mass destruction, they would be eager to use those too. But it will cost money to stop terrorists getting hold of the materials they need. Up to now, Europe and Japan have been remarkably reluctant to make this investment in securing nuclear materials. So much so that an agreement at the G8 summit in Canada to increase spending for this purpose had been deemed unlikely. As *The Economist* went to press, it looked as though a deal had been done—albeit with difficulty.

Short of a rogue regime deliberately helping them to acquire nuclear, chemical or biological weapons—something that, alas, cannot be ruled out—the likeliest source of the smuggled materials and expertise that al-Qaeda terrorists have been seeking is the sprawling weapons complex of the former Soviet Union. Ahead of this week's G8 summit (a meeting of the G7 rich nations, plus Russia), George Bush proposed a plan that he calls “ten plus ten, over ten”. He wants the rest of the G7—Canada, the bigger Europeans and Japan—between them to match what America is doing. That means putting up $10 billion over ten years for intensified work in Russia to dismantle unneeded nuclear and chemical weapons, make safe its surplus bomb-making plutonium and uranium, and find peaceful employment for former weapons scientists who might otherwise be enticed to build bombs elsewhere.

If a deal along these lines has at last been reached, it would represent (depending on the details) a big step forward. But why the hesitation? Why the reluctance to engage in an effort that seems so plainly worthwhile?

Japan has economic woes. Most Europeans have claimed their purse strings are pulled tight by the budgetary strictures of monetary union. All point to their good works elsewhere. They deployed these arguments before September 11th too. Since then the threat has been so much more urgent. It ought to be obvious that whatever weapons terrorists may use next, they could strike London, Paris, Berlin or Tokyo as easily as New York or Washington. And it is not just that European leaders should be ashamed of their stinginess thus far. Over the past decade, at the prodding of Senators Sam Nunn and Richard Lugar, distant America has spent some $4.5 billion (and next year will spend $1.3 billion more) tackling a problem that is right on Europe's doorstep. Some European governments have helped here and there. It was better than nothing. But, even added together, the effort to date has been derisory.

Money works

The reluctance to dig deeper into their pockets has been all the more deplorable given the extra security the money could buy. Many of the known thefts or attempted thefts of the most dangerous nuclear materials have taken place in Russia and other parts of the former Soviet Union. So far, America has helped Russia improve security at about half the sites where such materials are stored. President Vladimir Putin is ready to see Russia co-operate more in such threat-reduction efforts. As a result, there is every reason to hope that more cash will mean rapid progress in securing sites.

European money could also help speed up the disposal of Russia's already large stocks of weapons-usable plutonium, which are set to grow as more weapons are dismantled in line with the recent arms-cutting agreement with America. Yet the German government, for one, has been reluctant to spend money on reactors to burn Russian plutonium at a time when it aims to wind down Germany's own nuclear-power industry. Such sensitivities may be understandable. Even before September 11th, they were nonetheless misplaced. Since then, they have been indefensible.

The job does not stop there. Senators Nunn and Lugar are pressing all countries that have weapons and materials of mass destruction to make them more secure; some will need help doing so. This week, the International Atomic Energy Agency fingered the more than a hundred governments that do not have proper controls over the radioactive materials that are used in industry or medicine—the sort which, misused, could make dirty bombs.

Skimping on nuclear security was always a false saving. For the past nine months it has been outrageous folly. If the Europeans and Japan are overcoming their reluctance to commit resources to the job, good—it is about time. They will get as much security as they are willing to pay for, and no more.

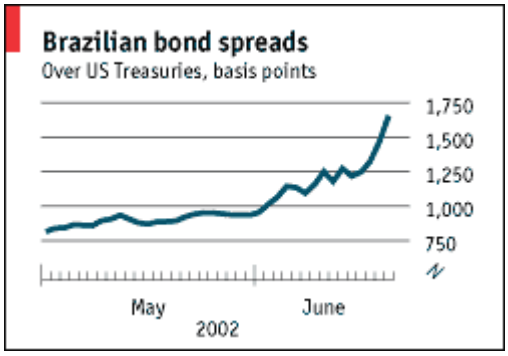
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Latin America's economies

Here we go again

Jun 27th 2002
From The Economist print edition

First it was Argentina. Will Brazil be next?



IN INTERNATIONAL finance, it never rains but it pours. Rich-country currencies and stockmarkets are in turmoil—not much helped by the latest revelations of American capitalist malpractice (see article). With horrible timing, fears are mounting anew in emerging markets as well. This time, Latin America is the focus of concern.

After the collapse in Argentina at the end of last year, the rest of the region and the emerging markets generally seemed to get off lightly. Worries about financial contagion of the kind that spread disaster during the East Asian crisis of 1997-98 eased. Thoughts turned to letting Argentina sort out its own problems with less assistance than it might once have expected. Let the rich countries and the International Monetary Fund draw a line: no more massive bail-outs, no more moral hazard. Six months on, things don't look so simple.

Alarm is spreading fast through Latin America (see article). Argentina's plight has gone from bad to unbearable—and contagion is back. The strain is being felt in Uruguay, in Paraguay and in other countries in the region; and now, most ominously of all, in Brazil. At the end of last week, financial markets in Latin America's biggest economy came close to panic. The stockmarket tumbled; risk spreads on the country's debts surged higher than in Argentina just before that country defaulted; rumours abounded of a gathering flight from the currency. If Brazil goes the way of Argentina, an emerging-markets crisis to rival East Asia's four years ago is on the cards.

With luck and resolve, it need not happen. The similarities between Brazil and Argentina are only skin-deep. Argentina's debt was mostly external; Brazil's is mostly domestic. Argentina had tied itself (for good reasons, arguably) to a fixed exchange-rate system; Brazil has a floating currency to act as a shock absorber. Argentina's economy is small and dependent on trade in just a few goods; Brazil's is big and diversified. Also, the markets are more concerned than they should be about the prospect that the leftist Luiz Inacio Lula da Silva will win Brazil's forthcoming presidential election (see article). His lead in the opinion polls somewhat flatters his chances, because his opposition, divided at present, will unite against him in due course. In any case, “Lula” is currently emphasising his commitment to (largely) orthodox economic and financial policies: he is not such a frightening prospect.

The trouble is, markets have a habit of getting their way even when they are wrong. Predictions of financial collapse are notoriously self-fulfilling. And the medium-term sustainability of Brazil's domestic debt is genuinely in doubt.

In due course, therefore, the rich countries and the IMF may have to decide whether to swallow their qualms and organise large-scale financial support. In the meantime, two far easier things (or so you might suppose) would help to stabilise the situation. First, all of Brazil's presidential candidates, but especially Mr da Silva, should make it clear that they recognise and are preparing to confront the domestic-debt problem, and that they support current moves to make the country's central bank independent. Second, rich-country leaders should say helpful things or, if that is not possible, keep quiet. Paul O'Neill, America's treasury secretary, recently blurted out that more support for Brazil would be a mistake—obliging his officials, as the markets tanked, to clarify (ie, disown) the comments. There is enough to worry about, Mr Secretary, without insights into your thinking added to the load.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

WorldCom

Accounting for change

Jun 27th 2002
From The Economist print edition

The need for radical audit reform in America grows ever more pressing

Get article background

WILL the scandals never end? Hard on the heels of Enron, Global Crossing, Tyco and Qwest comes what may be the biggest of the lot: the revelation that, over the past five quarters, WorldCom has "misclassified" almost $4 billion of telecoms-maintenance costs as capital spending that could be depreciated over several years, not one. This egregious error is even more offensive to common sense than Enron's use of off-balance-sheet vehicles. Not surprisingly, the Securities and Exchange Commission and the Justice Department are investigating. Prosecutions may follow. The president himself commented gravely on the fiasco; with that, most significantly of all, America's deepening crisis of confidence in capitalism strode higher up the political agenda.

Which auditors allowed this latest debacle to happen? Prepare to be amazed: Andersen, the same firm that was supposed to be scrutinising the books of Enron, Global Crossing and Qwest, and before that such other dubious cases as Waste Management. Andersen's own fate was sealed by its recent criminal conviction over Enron. Indeed, thanks to its legal-liability problems and the haemorrhaging of its clients, it would almost certainly have gone out of business anyway. That its name has cropped up in so many recent corporate scandals is surely no coincidence. Andersen, it seems, has been unusually lax in its auditing and astonishingly complaisant in the face of gross corporate malfeasance.

Yet it would be wrong to conclude that Andersen was simply one bad apple amid a barrel of good ones. The revelations of corporate misdeeds at Enron, Global Crossing and WorldCom confirm that there is an urgent need to rein in greedy and overmighty chief executives, and to curb rampant abuses of stock options. But in the same way, the audit scandals swirling around Andersen testify not only to the sins of a single firm; they also point to something rotten in the state of auditing itself. And that is where action is most pressing.

Regulate and rotate

Since Enron, Congress and the administration have been talking about reforms to the regulation of auditing and the setting of accounting standards. Disgracefully, lobbying by the profession once seemed likely to water down most ideas for change. But last week's overwhelming approval by the Senate Banking committee, in the teeth of professional resistance, of Senator Paul Sarbanes's bill to toughen the regulation of auditing, along with a new plan hatched by the SEC for a public accountability board, have revived hopes for reform. This week's scandal should turn hope into certainty.

Indeed, the Sarbanes bill should be treated as only a start. It sharply restricts the consulting work that accounting firms are allowed to do for audit clients; WorldCom, like Waste Management and Enron, paid Andersen more for consulting than for audit. It would be better to ban all non-audit work.

There is also a strong case for compulsory rotation of auditors. Accountants argue that changes of audit firms and partners mean losing the expertise needed to understand today's complex accounting systems and rules—and that most frauds happen in the early years of a firm's audit. Yet the WorldCom scandal came to light only after KPMG had been brought in to replace Andersen. Experience shows that the best

form of peer review is a frequent change of reviewer. Compulsory rotation should now be added to the Sarbanes bill.

Last come accounting standards themselves. The WorldCom case is simpler than Enron's: its accounts did not conform to America's Generally Accepted Accounting Principles. But GAAP rules are still too detailed and prescriptive; they have lost sight of the aim that company accounts should present a true and fair picture. Returning to such broad principles, and requiring bosses to sign off on them, might do a lot to restore investors' badly damaged faith in company numbers.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Hong Kong

Could be worse. Was better

Jun 27th 2002
From The Economist print edition

Hong Kong's first five years under Beijing's rule are no advertisement for a Greater China

Reuters

Get article background

FIVE years ago, Hong Kong took what was by any reckoning a pretty alarming leap into the dark. One of the world's most vibrant capitalist societies was handed over, 6m souls, their land and their reserves, to the world's largest communist state—whose experiment with market reform was barely 20 years old, and which only eight years earlier had gunned down hundreds of its citizens for daring to demand the rights enshrined in its own constitution. Had they been consulted, the people of Hong Kong would never have made the transition, most of them being refugees from China or the sons and daughters of such. Britain and China gave them no choice.

The results since then have been mixed, but taken in the round a good deal better than a lot of people expected. China has unquestionably kept its promise not to impose the communist system on Hong Kong. Businesses have been left to make money in peace, and communist cadres have resisted the temptation to descend from Beijing to fill their boots. The reserves are intact. Speech remains free, demonstrations, even those commemorating the Tiananmen massacre, continue, and the territory's civil service encounters little in the way of interference from the new proprietors.

That said, there have been a few alarming counter-examples, and larger clouds are discernible in the middle distance. China has, if on only one occasion, asserted its right to overrule Hong Kong's Supreme Court. It deliberately undermined the former chief secretary, Anson Chan, who later resigned. Hong Kong itself shows disquieting signs of trying to please China in advance: for instance, by refusing entry to the human-rights campaigner Harry Wu, who lives in America and is high on China's hate-list. The press gets tamer daily. When the territory's chief executive, Tung Chee-hwa, was up for re-election (by a committee hand-picked by China) nobody dared run against him. Another big worry is the necessity, long put off, of drafting new national-security laws for Hong Kong, which many fear will be used against Falun Gong or democracy campaigners. In these and other ways the freedoms Hong Kong enjoyed in 1997 are, if slowly, being eroded.

Taiwan unconvinced

The clearest proof that the Hong Kong model has only partly worked comes not from the former colony itself, but from Taiwan. For China's Communists, Hong Kong has always been something of a dummy run for the greater reunification that would bring together the nation divided since 1949. But the past five years have done nothing to encourage enthusiasm on the island for anything resembling the “one country, two systems” experience of Hong Kong. Most Taiwanese are growingly happy to proclaim their separateness, even in the teeth of Chinese military intimidation. Until China embraces democracy, their suspicions will not be allayed: unification between a democracy and a dictatorship is an unnatural act.

Meanwhile, life in Hong Kong will no doubt continue as it has been: constrained a bit here, threatened a bit there, on the whole far from unpleasant, especially when compared with anywhere else in China, but lacking any real accountability. Under British rule, the governor was accountable to an elected parliament, even if it was in London, not Hong Kong. The unremovable Mr Tung, whose attempts to

grapple with Hong Kong's recession have been clumsy, is accountable only to a distant politburo. The good news is that he and they have not abused their positions. But that is something the people of Hong Kong deserve as of right.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Letters

Jun 27th 2002
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

German Jews and Muslims

SIR – It is a pity that Charlemagne (June 15th) does not dig deeper into the causes and consequences of the row between Jürgen Möllemann of the Free Democrats and Germany's Jews. Mr Möllemann makes the liberal Free Democrats more nationalist by attacking the German Central Council of Jews while endorsing Palestinian attacks on Israel. His calculation is that by attacking Jews he can get some extra votes both from Germans with latent anti-Semitic feelings and from new Muslim Germans (he supposes they must dislike Jews too). Recent surveys show 29% of Germans think Jews have too much influence in the world and that 25% of Germans compare Israel's treatment of the Palestinians with what the Nazis did to Jews.

This comparison is hard to follow but in Germany this thinking has two further possible interpretations. First, it could make the Holocaust look less than unique and so less bad. Second, and more dangerous, it could even seem to make the causes of the Holocaust more understandable. Germany's post-war leadership has been conscientious in its efforts not to trivialise its historical responsibility for the Holocaust. It is this high moral standard that Mr Möllemann threatens.

The good news is that German Muslims are unimpressed by his attack on Jews. They recall the previous chairman of the German Central Council of Jews, the late Ignatz Bubis, showing solidarity with their position as a minority in Germany. He was a prominent member of the Free Democrats.

Michel van Roozendaal
Brussels

Fear of terror

SIR – An alternative headline for your article, "America the still-vulnerable" (June 15th) could be "America the more-vulnerable". We now live with a new fear thanks to John Ashcroft and a federal government that is doing too little to fight the terror of terrorism. It does not take a nuclear scientist to realise that talk of dirty bombs will scare people. Yet the Justice Department played up the risk. Mr Ashcroft called them weapons of mass destruction but these are devices more of fear than of physical peril; they are dangerous only to those nearby when they go off. Al-Qaeda could not have asked for better publicity. It is not the first time federal officials have ignored fear as an aspect of the war on terror. During the anthrax attacks, the government's medical and scientific experts were not allowed to do much of the talking. Instead we heard from politicians. We are less likely to trust politicians, especially when they seem not to know what they are talking about.

Trust is key for helping people to keep risk in perspective. Frightened people make dangerous choices: to drive instead of fly, to buy guns. Fear changes how we relate to our neighbours, how we spend and how we invest. It also makes us more willing to surrender civil liberties and support government spending in pursuit of safety. Perhaps this is why the government is doing too little to help us keep our fears in perspective. Whatever the reason, we are losing the emotional battle in the "war on terrorism".

David Ropeik
Director of risk communication, The Harvard Centre for Risk Analysis
Cambridge, Massachusetts

Stiglitz makes a point

SIR – It may seem churlish of me to complain about being misrepresented given all the kind things you said about my credentials but I want to make one point clear: I was not flinging accusations about corruption in my book, as your rather overexcited reviewer seems to imply ("Bad faith", June 8th). In fact, I was making the simple—and rather obvious—point that organisations staffed with people who have interests that overlap with those of Wall Street financial institutions are less likely to come up with policies aimed at helping the world's poor. Many democracies, including America, have laws against revolving doors, and for good reason.

As for "caring" too much, I do beg your pardon. The next time I see thousands of people in less-developed countries lose their jobs because of absurdly contractionary fiscal policies urged on their governments by the IMF, I will try not to mind.

Joseph Stiglitz
New York

The bullied fight back

SIR – America's schools suffer in our increasingly litigious society. However, the case in which a student sued his school after bullying by his classmates for his being gay, which you deride as "daft", is indicative of a real problem ("Please Miss, what's an IEP?", June 8th). The student who brought the suit was subjected to over five years of physical and verbal abuse by fellow students. Repeated attempts to enlist the school's assistance in ending the situation met with apathy from some staff members and open hostility from others.

At the time of the lawsuit, the school district in question had one of the toughest anti-harassment policies in the country. If legal action is required to force school administrators to enforce such policies, so be it. Too many lives are blighted while students wait for change to come from within the system.

Andrew Willett
New York

Football's early start

SIR – A minor omission from your survey of football (June 1st) is the role played by BSkyB, Rupert Murdoch's satellite-TV company, in the expansion in the Far East of Manchester United and other English Premier League clubs.

Many games now kick off at noon on weekends in England. Previously, this was because of policing factors but it has become obvious that these matches now begin at this time to satisfy television audiences in the Far East—much to the annoyance of fans wishing to attend the games. This may be good news for lovers of football worldwide, and also for the balance sheets of the clubs and broadcasters, but it is yet another example of how the beautiful game is being ruined for its core followers.

You argue that most successful clubs remain so by relying on match-day ticket sales. If "real" supporters are continually neglected by football clubs then they will desert their teams and there will be no product for anyone to enjoy.

Matthew Knowles
London

The art of spin

SIR – Bagehot (June 8th) says that the British government is now more cautious in its use of spin. This shows that domestic checks and balances do work, eventually. However, do they work as well when obscure foreign issues become involved?

It is not unknown for government officials to invent entirely spurious rows with Brussels before important meetings with European Union counterparts and then to emerge from meetings claiming "victory". Given the complexity of some of the issues, much of the press diligently reports the spin. As bemused EU

officials have no incentive to interfere in a “domestic” issue, the communications gamble almost always pays off for the government.

Anthony Wright
Brussels

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The Middle East

Changing a regime by diktat, maybe

Jun 27th 2002 | EAST JERUSALEM
From The Economist print edition

Reuters

Told to go, Mr Arafat is calling an election that will probably tell him to stay

Get article background

YASSER ARAFAT must go, or so spake George Bush on June 24th. In a general way, most people, including many Palestinians, would agree that after 33 chequered, often heroic, years of leading a cause that was once thought lost, Mr Arafat no longer has the power to rescue his people from their latest tragedy, or the wits to bargain statehood out of Israel. But Mr Bush's bald demand for a regime change may not be much help to those who had wished to ease the old man out.

It has, for a start, reinforced the conviction of Israeli politicians, not just on the right, that their only future dealings with Mr Arafat should be to continue to isolate and punish him. But this leaves them with no Palestinian of any weight to talk to. As Israel's current policy is confined to military retaliation against Palestinian terrorism, the absence of an interlocutor is not a disaster. But that could change.

Elections are a difficult concept in tormented fragments of occupied territory where all movement is blocked, and where bare survival is at the top of people's minds. But if and when there is an election, and if, as expected, he stands for re-election, Mr Arafat is likely to romp home even more safely than he might have done before Mr Bush ordered him out. His people are rallying to him, and a challenger damned with American-Israeli blessing would get nowhere. Mr Arafat, that great survivor, is banking on this.

Indeed, on the very day that Mr Bush was calling on the Palestinians to elect new leaders, Mr Arafat was calling on them to take part in the widest suffrage in Palestinian history. A decree was issued on June 24th ordering parliamentary and presidential elections in January 2003, and local government ones in March.

This was Mr Arafat's riposte to an American administration that was writing him out of the script. The next day, when he was asked about his early retirement, the Palestinian leader, talking outside his besieged Ramallah headquarters,was coy: “This is what my people will decide. They are the only ones who can determine this.”

They will almost certainly endorse him as their leader again. Nothing adds so much lustre to his throne as American-Israeli moves to unseat him. After all, earlier attempts to bury Mr Arafat resulted in

resurrecting him. He returned to Gaza in triumph in 1994, after being painfully exiled from Beirut in 1982. He was an honoured guest on the White House lawn for the 1993 Oslo accords ceremony after being declared *persona non grata* for his embrace of Saddam Hussein in 1990. Often down, never out, say Palestinians.

Who are the new leaders?

Mr Bush has called for new leaders committed to “democracy, market economics and action against terrorism”. Who might they be? Muhammad Dahlan's name is often touted. The CIA had hoped that the Palestinian Authority's former security chief in Gaza would bring order to the Palestinians' ramshackle police forces. And indeed he has spent the past year positioning himself as a reformist, calling for corrupt PA ministers to be dismissed.

But Mr Dahlan's need to prove his patriotism to his people has sometimes held him back from engaging in the “sustained fight against the terrorists” that Mr Bush calls for. In the first months of the *intifada* he turned a blind eye to members of his security forces who took up arms against soldiers and settlers in Gaza. In November 2001 he refused orders from his president to arrest members of the Popular Front for the Liberation of Palestine and Islamic Jihad. The orders, he insisted, were illegal.

Last month he resigned his security post altogether. “Security is a complicated matter,” he told Israel's *Yediot Ahronot* newspaper on June 16th. “Israel accuses you of not doing the work. Our public accuses you of being a collaborator. The opposition is against you. It's an equation that leads to defeat.”

Mr Dahlan is ambitious, but he is also clever. He understands that in the current climate of Israeli reconquest the mood is shifting against Palestinian leaders compromised by the Oslo process. This includes Ahmed Korei (Abu Ala), Mahmoud Abbas (Abu Mazen) and Mr Dahlan himself. And as a leader in Mr Arafat's Fatah movement, he is also well aware who is the chosen heir among the young fighters forged by the *intifada*.

Marwan Barghouti, Fatah's general secretary in the West Bank, is the name on their lips. He was an inspiring resistance leader, calling for public protest, armed attack and a Palestinian state on every inch of the West Bank and Gaza. At present he is in an Israeli jail, being tortured, according to Amnesty International. His supporters say that he will campaign from his cell for his seat in the Palestinian parliament.

The parliamentary election may attract far more radical candidates, including members of Hamas. In 1996 the Islamists refused to take part in Palestine's first elections in protest at the Oslo process. With Oslo dead, they may be less inhibited. Pollsters predict they would do well, and not only because of their encouragement of the armed struggle, including suicide bombings. In many parts of both the West Bank and Gaza, Islamic charities now provide more relief to the poor than does the PA's bankrupt Ministry of Social Affairs.

AP

Dahlan, ambitious and smart

Mr Arafat knows his people's temper. For the past three years he has resisted calls for new Palestinian elections. He did this not because he feared that his own “dictatorship” would be overthrown, but because he was advised, by Mr Dahlan among others, that the people returned to sit beside him would be younger, poorer, more democratic and more radical.

Consigned to besieged oblivion, Mr Arafat appears determined to fight Mr Bush's diktat with a mandate from his people. In recent weeks he has been demanding that Israel withdraw from towns and villages so that campaigning and elections can take place, and asking for international observers so that they can be seen to be free and fair. He has also demanded that the voters include the 200,000 Palestinians who live in annexed East Jerusalem. Will Israel permit this pursuit of “honest government”? It seems unlikely.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Bush's speech

What he said, and what he didn't

Jun 27th 2002
From The Economist print edition

Mr Bush's conditions for progress towards peace

Get article background

"IF ALL parties", said George Bush on June 24th, "will break with the past and set out on a new path, we can overcome the darkness with the light of hope." Admirable, except that the heart of the president's message was directed less at "all parties" than at the Palestinians alone. He demanded nothing from the Israelis, at least not until the Palestinians had changed their ways and their leaders, including Yasser Arafat.

Peace, decreed Mr Bush, requires a different Palestinian leadership. He called on the Palestinians under occupation to elect new leaders, starting with local elections by the end of this year. They should be helped to establish an honest and fully working democratic system, and to make sure that their security services are dedicated to a sustained fight against terrorism. When they have managed to sort themselves out with "new leaders, new institutions and new security arrangements", America will support "the creation of a Palestinian state whose borders and certain aspects of its sovereignty will be provisional until resolved as part of a final settlement."

At this point, Mr Bush turned briefly to the Israelis, pointing out that it was in their own security interests to support the emergence of a stable, peaceful Palestinian state. "As we make progress towards security," he urged, Israel needs to withdraw its forces to the positions they held before the start of the *intifada* on September 28th 2000, stop building and expanding settlements, and allow people some freedom of movement. No hurry, though.

Ultimately, said Mr Bush, the familiar core issues must be tackled. "As new Palestinian institutions and new leaders emerge, demonstrating real performance on security and reform, I expect Israel to respond and work towards a final status agreement" based on UN Resolution 242. He did not provide a route map to this agreement, but suggested, rather implausibly in the circumstances, that it might all happen within three years.

He did not follow up earlier American suggestions of a grand international conference to explore the paths to a compehensive peace. Instead, he said that his secretary of state, Colin Powell, together with Middle Eastern and other leaders, would be focusing on "a comprehensive plan to support Palestinian reform and institution-building."

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The West Bank under occupation

Reconquered land

Jun 27th 2002 | EAST JERUSALEM
From The Economist print edition

Living with Israel's soldiers, again

Get article background

HOURS before George Bush unveiled his new Middle East policy, Israeli tanks laid siege to Yasser Arafat's headquarters and swept through Ramallah for the 11th time in fewer months. Hours after the speech, the army conquered the Palestinian-controlled part of Hebron. Some 600,000 Palestinians now sleep under curfew, and Israeli soldiers control seven of the eight West Bank Palestinian cities. They took Jenin, Tulkarm, Qalqiliya, Bethlehem and Nablus over a week ago, before and after two suicide bombings in Jerusalem, and an attack on a settlement near Nablus, left 31 Israelis dead.

The latest incursion, “Determined Path”, is the deepest since Israel's “Defensive Shield” offensive in April, which was supposed to have dismantled the terrorist infrastructure in Palestinian areas. But there are differences. One is the minimal resistance that Palestinians have put up. Four Palestinian police officers were killed during the Hebron invasion, but 100 others surrendered without a fight. The operation is smaller, requiring the call-up of about 2,000 reservists compared with 30,000 in April. Palestinians quietly admit that this is testimony to Israel's success in arresting or killing most of the militia leaders in the previous raids. The bombers and guerrillas are now third-rank leaders, they say, unknown to the Israeli army and sometimes to the militias.

But the main difference is that, this time, the re-conquest will be long. In Nablus and Jenin the army is hauling in mobile homes to house the soldiers stationed there. Curfews are shorter, as the army realises that with conquest comes some responsibility for those under their charge. The realisation can be belated: on June 21st three children and an old man were killed by tank shells in Jenin after breaking a curfew all thought had been lifted.

To most West Bankers, Determined Path marks the demise of what remains of their Palestinian Authority and the return to direct military occupation of the pre-Oslo vintage. Israel denies this. There is no plan for permanent occupation, says the defence minister, Binyamin Ben-Eliezer, nor for a revamped “civil administration”, the Israeli authority responsible for Palestinian civilian services in the occupied territories before the PA took over.

According to Israel's Shin Bet intelligence service, Israel's “presence” in the Palestinian areas will last only for the time it takes to build the fence that is supposed to seal Israel from the West Bank as hermetically as Israel is today sealed from Gaza. But the fence will take months to construct, say defence officials, perhaps years. In the meantime, the army is opening contacts with Palestinian municipalities to co-ordinate services. Soldiers are quietly telling their Palestinian subjects to come to them for permits and passes rather than to the Palestinian ministries. The PA has ruled against all such “collaboration”. But fewer and fewer Palestinians are listening. “We have to live,” they say.

What seems clear is that no functioning, central Palestinian Authority, reformed or otherwise, can emerge in these circumstances. Aside from the Israeli invasions, the 40% of the West Bank that the PA once partially controlled is currently divided into eight zones, 120 checkpoints and 220 enclaves. Unless this changes, elections are about as feasible as a state on the moon, say Palestinians.

“Mr Sharon has always advocated a functional solution for the West Bank rather than a territorial one,” says Ghassan Khatib, the PA's new labour minister. “What he wants is a regime where Israel has exclusive control over security, while the Palestinians have civil responsibility for services like health and education. His aim now is to so pressure the Palestinians until they accept this arrangement.”

Like the idea of an “alternative” Palestinian leadership, this arrangement has been tried in the past. “It didn't work then. It won't now,” says Mr Khatib.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Israel's response

Happy days are here again

Jun 27th 2002 | JERUSALEM
From The Economist print edition

A jubilant government, and a sad little clutch of peaceniks

Get article background

AP

Button up a bit, said Sharon

IF THE speech by George Bush was the political assassination of Yasser Arafat, then Shimon Peres and the Israeli peace camp are the collateral damage. For the past two years the peaceniks have been flailing about for a policy. This week, they suffered the ultimate put-down: an American president seemed to be siding with their hardline, rightist rivals.

“One speech, however important, can't bring salvation,” sniffed Shimon Peres, the foreign minister and one-time Labour leader. His dwindling band of loyalists urged him to leave Ariel Sharon's government. Mr Sharon, for his part, admonished his followers to button up their bubbling jubilation. Privately, he sent his thanks to the president through Condoleezza Rice, Mr Bush's national security adviser.

Both sides in Israel expect nothing seriously to change in the wake of the speech. Mr Arafat won't go, and Mr Bush won't do anything drastic in order to push him out. The war will go on, with the Israeli army gradually reoccupying the whole of the West Bank. For the left, that scenario is disastrous. For the right, it staves off even worse disasters, such as the creation of a territorially viable Palestinian state.

Tzachi Hanegbi, a Likud minister, could not resist a gloat after the speech. “I'm not worried about the second stage [of the Bush blueprint],” he crowed. Even the president's renewed call for a freeze on settlements would remain a dead letter, indefinitely awaiting the implementation of the prior conditions that Mr Bush has imposed on the Palestinians. Another senior Likud man said he could not have written the speech better himself.

Yossi Sarid, leader of the opposition Meretz Party, reached the same conclusion from the opposite point of departure. The president's long-term vision was admirable, he said. “But he clearly has no idea of how to set about achieving it. And meanwhile we here in the region are wallowing in blood.” Yossi Beilin, the architect of the Oslo accords, which Mr Bush omitted to mention, was similarly cynical. “We don't have the time”, he said, “to wait for the preconditions to be implemented.”

Significantly, though, even these two prominent doves have thought it wise over recent months to distance themselves from Mr Arafat. Mr Sarid says that negotiating with the Palestinian chairman had become a waste of time. Mr Beilin, less outspoken, has preferred to meet other figures in the Palestinian leadership.

For mainstream Jewish politicians in Israel, there was little mileage to be made from advocating talks with Mr Arafat even before Mr Bush's speech. Now, following his condemnation by the American president as a leader “compromised by terror”, he is finished in Israeli eyes as a feasible negotiating partner. Whatever its practical flaws, Mr Bush's speech marks the beginning of the post-Arafat era. To that extent, Mr Sharon's goal of making Mr Arafat “irrelevant” has been achieved.

The street-smart Labour Party leader and minister of defence, Binyamin Ben-Eliezer, was quick to read the new reality. He welcomed the speech, he said, because it created two conditions for progress which he, too, regarded as indispensable: a change of Palestinian leadership and an end to terror. He rejected

any thought of his party leaving the government.

America's game-plan, according to Israeli intelligence sources, is to engineer Mr Arafat's elevation to a ceremonial role while power shifts to younger people. Some of these would be drawn from the familiar faces that now surround him. Others would come from the lesser-known municipal leaders, and from the swelling ranks of detainees in Israeli jails.

Even if everything does not go to plan, say Israeli analysts, Israel can expect further solid support from the Bush administration for its military actions in the West Bank. For Mr Sharon's government, therefore, the president's speech was a win-winner. It may bring about Mr Arafat's removal; and if it does not, it will result in even greater freedom of action for the army. A whiff of this, reaching Washington, may have contributed to an effort there to try to put a slightly more balanced spin on the president's words.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

European and Arab response

Polite dismay

Jun 27th 2002 | BRUSSELS AND AMMAN
From The Economist print edition

Public welcome, private distress

Get article background

THE reaction to George Bush's speech in Europe, and in much of the Middle East too, was public welcome and private dismay. Most European policymakers strove to find things they could agree with. It was good, they said, that Mr Bush had held out the hope of a Palestinian state, and they shared his view that there must be reform of the Palestinian Authority (PA). But in Brussels, London, Paris, Berlin and Moscow there were also obvious official misgivings. In particular, most European policymakers clearly believe that Mr Bush has made a mistake in insisting on the removal of Yasser Arafat.

The European Union recently described Mr Arafat as “an indispensable partner” for peace. In the wake of Mr Bush's speech, EU officials were adjusting their position slightly. “We're interested in the peace process, not in the fate of Arafat as an individual,” said one.

But the Europeans think that Mr Arafat is likely to win any fresh Palestinian elections. In that case, said one well-placed EU official, “the Americans will have put themselves in a box.” European policymakers also believe that the Americans may be demanding unrealistically high standards for economic and political reform in Palestine, given the destruction on the West Bank and the lack of democracy in the rest of the Arab world.

So what will the Europeans do now? They will continue to press for an international peace conference—an idea that was noticeably absent from the speech. The EU will also continue to finance the PA. But even traditionally pro-American voices, such as Britain's Tony Blair and Javier Solana, the Union's high representative for foreign policy, are now clearly at odds with the direction of American policy.

Arab good manners

Taking their lead from Mr Arafat, who welcomed the speech as “a constructive and a positive contribution to the peace process”, Egyptian and Jordanian officials have pasted on a brave public face, talking politely of the speech's positive aspects. Privately, they are more inclined to dismiss the American approach as blatantly biased, noting that two-thirds of the speech was devoted to reprimanding the PA, and wondering at a call for democracy that also calls for the removal of an elected leader. The Saudi government is said to be put out that Mr Bush made no mention of Crown Prince Abdullah's peace plan, apparently ignoring the five-hour tutorial on the Middle East he recently received at his ranch from the prince.

Egypt and Jordan have expressed some perplexity about Mr Bush's references to their countries reaching agreement with America and Israel “on security and other arrangements for [Palestinian] independence”. Jordan, in particular, has no desire to return to the West Bank. “I will not allow a Jordanian tank to replace an Israeli tank in Palestine,” King Abdullah has said.

Most Arab governments would not be all that sad if Mr Arafat stepped down. But, observed a western diplomat, “If you want to get rid of him, don't say it.”

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The genesis of the speech

Home thoughts abroad

Jun 27th 2002 | WASHINGTON, DC
From The Economist print edition

EPA

Powell lost, Rumsfeld won

The domestic considerations that pushed George Bush to speak

COLIN POWELL and Donald Rumsfeld may have stood shoulder to shoulder as George Bush sweated through his speech in the White House Rose Garden, but the administration is as divided over the Middle East as over anything. Mr Powell and his fellows in the State Department have long argued that America needs to throw its weight behind the creation of a “provisional” Palestinian state. The Pentagon and the vice-president's office have very different ideas.

Mr Rumsfeld, the defence secretary, and Dick Cheney, the vice-president, are worried about allowing America to become too entangled in one of the world's most intractable problems. But they are also overtly partisan, regarding America and Israel as engaged in a similar fight against terrorism. Mr Bush's speech clearly marked a singular triumph for the Rumsfeld-Cheney axis.

With the president openly hostile to Mr Arafat, the cards were always stacked against Mr Powell. But it was last week's suicide bombings that finally put paid to any chance he might have had of moderating policy. The final straw, it is said, was a report that Mr Arafat had authorised a $20,000 payment to the al-Aqsa Martyrs Brigade, an offshoot of Fatah that had claimed responsibility for the second of these bombings. Every time the White House delayed the speech, the line got harder. Mr Bush added the sentences calling, in effect, for Mr Arafat's removal as recently as last Saturday evening.

So far, American reaction to the speech has been mostly positive. The plan has won loud applause from both conservatives and Jews, two groups that matter not just because they are organised and articulate, but also because they cover the range of the political spectrum. Anybody who can appeal to both Christian conservatives in Virginia Beach and Jewish liberals on New York's Upper West Side is likely to be able to sell his policy. The plan has won equally loud applause on Capitol Hill.

But this political success conceals a change for American policy: that the Israeli question is becoming a matter of party politics. The Democrats, traditionally the party of America's Jews, are now more critical of Israel than the Republicans. In a recent pro-Israel resolution in Congress, 44 Democrats failed to support the motion compared to six Republicans.

Last month, a Gallup poll asked Americans whether they were more sympathetic to the Israelis or the Palestinians. Support for Israel was far larger among Republicans (at 66% to 8% for the Palestinians) than among Democrats (40% to 20%). Republicans are salivating at the possibility of recruiting Jewish

voters, opinion-leaders and political donors. If they do, Mr Bush's policies may turn even more aggressively in Israel's favour.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Policing the Big Apple

Winning the war on crime—for the moment

Jun 27th 2002 | NEW YORK
From The Economist print edition

Katz/FSP

New York has become the most celebrated model of American policing. It still shows how crime can be reduced, but money is a problem

Get article background

A POLICEMAN'S lot is seldom a happy one. But even bearing that in mind, morale is low at the Sixth Precinct in Greenwich Village. The cops moan about low pay and the increase in their workload since September 11th. Too many hours of overtime have stretched the force and also prompted many cops to retire (because pensions are based on their final-year's pay, including overtime). “It's not worth it anymore,” is a constant refrain. Yet the facts show that these police officers are doing a terrific job.

When Rudy Giuliani stepped down as mayor, amidst near-universal adulation, at the end of last year, New Yorkers were doubly fearful. Mr Giuliani had been a source of great strength after the attack on the World Trade Centre. Almost as big a fear was that he would take with him his main pre-September 11th achievement, the sharp reduction in (non-terrorist) crime.

Mr Giuliani had transformed New York from a scary, violent place into one where people mostly felt safe. The worry was that this had been achieved mainly through the sheer strength of hizzoner's personality, not least his relentless loyalty to the New York Police Department, and his lack of sympathy for anyone who got in the NYPD's way, from squeegee merchants to unlucky victims of police bullets.

Would his successor, Mike Bloomberg, only recently and notionally a Republican, be as bloody-mindedly committed to the cause? His choice of police commissioner did not immediately reassure: Ray Kelly had held the job before, in the crime-ridden pre-Giuliani mayoralty of David Dinkins. And the already financially-stretched NYPD would surely have to divert resources from tackling conventional crime to the war on terrorism.

In the event, things have gone better than ever. Crime has continued to drop at a spectacular rate. Total crime so far this year (to June 16th) is down by 6% compared with the same period a year ago. Murders are down by 16%, assault by 12% and robbery by 9%. Total murders are on course to dip below 500, down from 643 last year and 1,927 in 1993.

Conservatives in America, who like to fume at “soft” European policing, tend to exaggerate New York's safety. You were still three times more likely to get murdered in New York than in London in 2001 (see chart). Cynics also claim that much of New York's

achievement is due to demographics—particularly a drop in the number of young men. And there seems to be pressure in places like the Sixth Precinct to keep statistics low, so grand larcenies often get demoted to larcenies.

Supporters of the NYPD will have little of this. Eli Lehrer of the American Enterprise Institute, confidently forecasts that London will soon out-murder New York. He also (correctly) adds that when it comes to many non-murder crimes, London already has a worse record. Indeed, the basic point of the NYPD's boosters seems correct. New York may not be the safest place in the world, but its crime rate is going down at a time when it is rising in most other big cities and indeed in most of the rest of America (see article). What is it doing right?

Ironically, Mr Dinkins deserves part of the credit. His “Safe Streets, Safe City” programme led to a 40% increase in police officers, though mostly after he was ousted. Mr Giuliani's first police commissioner, William Bratton, introduced the famous policy of “zero tolerance”, which meant that the police no longer turned a blind eye to relatively small crimes. Messrs Giuliani and Bratton deliberately singled out prominent targets, such as the squeegee merchants who hassled drivers when they stopped at traffic lights.

Mr Bratton also transformed the management of the world's biggest metropolitan force. Although the NYPD was—and remains—quite bureaucratic, Mr Bratton delegated power to the local-precinct level and held individual precinct commanders accountable for results. A big screen in Police Plaza displays up-to-the-minute data on all the crimes taking place in the city.

Despite this, much of the force's equipment is low-tech. Mr Kelly wants to update it, to give his cops e-mail and remote access to detailed data (though this will be expensive). He is also using his crime database to pursue a new campaign against “quality of life” crimes, following reports of an increase in begging and prostitution. Hookers ply their trade more visibly than when Mr Giuliani was mayor in midtown.

Mr Kelly has also been tinkering with other bits of the NYPD. He disbanded the controversial Street Crime Unit, which mistakenly slaughtered Amadou Diallo, a young unarmed immigrant, in 1999, provoking months of protests. But Mr Kelly has also started a tough new street-based campaign against drug dealers. He is adamant that the continued fall in crime is due to effective policing, not to New Yorkers becoming nicer post-September 11th.

Yet continued progress cannot be taken for granted. The NYPD is having to devote a lot more of its resources to fighting the threat of terrorism. It now has a special counter-terrorism division. It has sent officers on fact-finding missions to Afghanistan, Pakistan and Israel. Each precinct now has an in-house intelligence officer.

Before long its current budget of $3.2 billion will need to grow if its counter-terrorism effort is not to harm the fight against conventional crime. There is growing speculation that Mr Bloomberg will propose a new “public-safety tax” to pay for any such increase. The mayor has so far been careful not to use tax hikes to close the city's gaping budget deficit, for fear of driving businesses away. But the popularity of the police might justify making an exception for them.

The heroism of the NYPD on September 11th has also made it a little easier to recruit new cops. There was a deluge of applications at the end of last year. Yet there are anecdotal signs that the more potential applicants study places like the Sixth Precinct, the more they reconsider. The force has not had a pay rise for three years, and the officers are currently officially without a proper pay contract. Some nearby police forces pay almost double. If New York wants to hang on to its safe status, it might have to pay up.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Crime

Nine years in remission

Jun 27th 2002 | CHICAGO
From The Economist print edition

Outside New York city, things are not looking so good

Get article background

FOR nine successive years, politicians and policemen have jostled to take credit for America's steep drop in crime. They may be less eager to step to the podium to speak about this week's news from the FBI: the nation's crime index rose by 2% in 2001. Violent crime, which includes murder, rape, robbery and aggravated assault, climbed 0.3%; property crimes, such as burglary and car theft, went up 2.2%.

A turning point?
Crime index trends* 2001
% change on previous year

	US	North-east	Mid-west	South	West
Total crime	2.0	-1.2	0.9	1.9	4.5
Total violent crime	0.3	-2.3	-1.0	1.7	1.0
Total property crime	2.2	-1.0	1.1	1.9	5.0
Murder	3.1	7.7	4.1	-2.1	8.0
Robbery	3.9	-2.3	0.5	7.1	7.1
Motor theft	5.9	1.1	1.5	4.4	12.2

*Selected categories
Source: Federal Bureau of Investigation

The terrorist-attack deaths on September 11th were excluded as a statistical aberration. Had they been included, the nation's murder toll would have climbed 26%. Even without these killings, murders grew by 3.1%.

Crime increased in cities and towns of all sizes. Indeed, the crime index rose slightly more in suburban counties (2.4%) than in cities with populations over a million (1.8%). The north-east was the only region of the country in which crime continued to fall. Overall crime grew fastest in the West while violent crime grew fastest in the South.

Has America's wondrous falling crime rate run its course? Critics of tough sentencing laws point to the rising numbers of prisoners now being released. Paul Robinson, a Northwestern University law professor, argues that it is too early to tell. The FBI data may mean the crime drop has hit bottom—or it may turn out to be a bump on the road to more good news. One crucial piece of evidence is the anomalous falling crime index in the north-east, where the figures are heavily influenced by New York city. That makes the debate about the permanence of the NYPD's achivement all the more important.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Medicare

Say yes to drugs

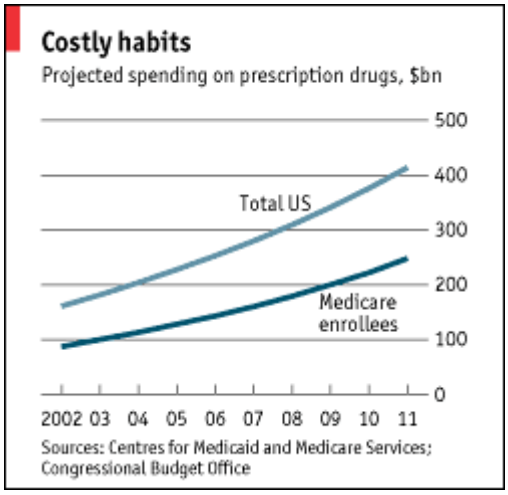
Jun 27th 2002
From The Economist print edition

America's elderly need help paying for drugs. Congress is trying to oblige

A NEW drug war is under way, though this time politicians are worried about pill-popping oldsters, not dope-smoking teenage punks. As *The Economist* went to press, the House of Representatives was still expected to pass a Republican-backed bill to provide prescription-drug cover for older Americans under Medicare, a federally-funded health insurance programme. Even though it stands little chance of getting through the Senate, the bill opens up a debate that may feature prominently in the mid-term elections.

Elderly Americans vote in impressive numbers. They make up the vast majoity of the 40m people enrolled in Medicare (most of the remainder are disabled). At the moment, Medicare only covers drugs used in hospitals. But it is outside hopsitals that older people need drugs most. This year they are expected to spend $87 billion on prescription medicines outside hospitals—almost half the national pharmaceuticals bill (see chart). That figure is expected to treble over the coming decade.

Some old people have private insurance; others rely on state-sponsored Medicaid, which is available only to the very poor. But almost 40% of those enrolled in Medicare have no insurance—and, since they are perceived as a “difficult” market, they are finding it harder to get insurance even if they can afford it. According to the Kaiser Family Foundation, elderly Americans will spend around $1,000 of their own money on drugs this year.



In the absence of any action from Washington, half the nation's states have taken matters into their own hands and set up drug-assistance programmes for poor seniors. But a nationwide solution would be neater. The House bill would set aside $310 billion for prescription drugs under Medicare over ten years; another $40 billion would boost payments to doctors and hospitals. The money would be channelled through private insurers who would offer drug-insurance packages to those on Medicare for $35 or so a month.

One problem with the bill, though, is how it allocates the money. Ron Pollack, head of Families USA, a leftish health-care lobby group, points out that the bill helps those who spend up to $2,000 on drugs and those who spend more than $4,900. But those in between are caught out.

Another concern is that private insurers will be reluctant to provide drug-only cover for fear that only the very sick will take it up. Don Young, head of the Health Insurance Association of America, says his members are more optimistic about this bill than earlier Republican proposals; but he worries whether enough money has been budgeted for rises in drug prices.

In any case, few believe the House bill has much of a future. Senate Democrats, who currently control the chamber, have a very different prescription-drug plan for Medicare. Their bill would cost up to $500 billion over seven years. It would provide continuous cover across all the different spending brackets, thereby avoiding the gap in the Republican package. And although their bill would use private “pharmacy-benefit managers” to deliver the goods, it keeps firm control of the plan's design and administration in government hands. (This role frightens drug companies, which fear that the government will start setting prices as well.)

Senate leaders want to bring their bill to a vote before the August recess, but are unlikely to muster enough support. Even without all the partisan politicking, crafting a prescription-drug benefit would be tricky now that the government faces a whopping deficit. Medicare reform of even a meagre sort will have to wait until next year. For the moment, though, all that matters is that the politicians are seen to be doing something.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Fire and drought

Desiccation row

Jun 27th 2002 | NEW YORK
From The Economist print edition

As fires blaze in Arizona, the debate over drought policy continues back east

AP

In need of water

IN ARIZONA, thousands of residents have been evacuated as the biggest fire in the state's history rages on. After years of drought, a stray match or carelessly discarded cigarette butt was all it took. Now more than 375,000 acres have been scorched; local homeowners are camping out in high-school gyms.

The wildfires that have incinerated over 2.5m acres across the West this summer are only the most visible consequence of a problem that affects the whole nation. Signs of drought are everywhere. At least 40% of the country is suffering from severe drought, up from a seasonal average of 10-15%, while 30 states are looking at unseasonal dryness. New Yorkers, as any cinema-goer will know, love to use fire hydrants to cool off in hot weather. Try that trick now, though, and prepare to pay a fine of up to $1,000. New York's current state of drought emergency, the first since 1989, has placed severe restrictions on water use. Officials are prowling the streets looking for wasters.

Drought is a normal part of the climatic cycle; it also tops the list of America's most expensive natural disasters, at around $6-8 billion annually. It is a consistent drain on emergency funds, greater than tornadoes, earthquakes and even floods. The last serious drought, in 1988-89, had a price-tag of $40 billion in damages, mostly due to its effect on farmers' crops in the mid-west. It looks like the current dry spell may cost even more.

What can be done? Some green-minded folk blame global climate change and longer summers, and scornfully point to George Bush's refusal to sign the Kyoto protocol, which limits emissions. But attention is mostly focused on drought policy. In 1998 Congress passed the National Drought Policy Act, which set up a commission to study the problem. The commission subsequently recommended a policy of improved water management, rather than emergency response.

In May, Senators Pete Domenici of New Mexico and Max Baucus of Montana introduced the National Drought Preparedness Act. The bill—which calls for a national drought council, new forecasting technology, more and better reservoirs and wells—may make some headway among politicians who are currently grappling with low water-levels.

In light of all the farmer-friendly pork coming out of Congress lately, sceptics worry that such “proactive mitigation” amounts to a hand-out. But an independent central authority could tell states how to conserve their water, while improved drought monitoring would give them a chance to conserve water at the onset of a drought. Leaders of the Western Governors' Association have been petitioning Congress to pass the bill this year. In states like Colorado, where the worst drought in decades has coincided with at least five devastating fires, a few months may seem too long to wait.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

About sponsorship

Capital punishment

The ebbing of death

Jun 27th 2002 | SAN FRANCISCO AND ST LOUIS
From The Economist print edition

The Supreme Court has pushed back the death penalty—just a little

Get article background

CAN America's long love affair with death be cooling? In two recent decisions, the Supreme Court has spared the life of up to a quarter of the country's death-row inmates. It has also reconsidered its own views on when the death penalty is warranted and when it is not.

First, the court ruled six-to-three that executing the mentally retarded violates the Eighth Amendment's ban on “cruel and unusual” punishment. The court has long held that the judgment of what is cruel and unusual must reflect “an evolving standard of decency”, and cited a trend among states to ban executions of the retarded. The decision stopped the execution in Virginia of Daryl Atkins, who is said to have an IQ of 59, and stayed the executions of around 160 people whose IQs were less than 70, the generally accepted definition of retardation.

In its second decision, the court ruled that only juries can impose the death penalty, overturning an Arizona law it upheld 12 years ago in another case. With the two justices from Arizona, Chief Justice William Rehnquist and Justice Sandra Day O'Connor, dissenting, the majority ruled that under the Sixth Amendment's guarantee of a jury trial, a judge cannot displace a jury in imposing a death sentence or impose a harsher penalty.

The next likely front for opponents of the death penalty is the execution of offenders who committed murders while minors, a practice that puts America in the company of Iran, Saudi Arabia, Yemen, Pakistan and Nigeria. Although several states have banned the execution of people for crimes committed before they were 18, other states set the age limit at 16, and 83 juvenile offenders are currently on death row. Yet the court said, in the retardation case, that there is not yet a comparable consensus on juveniles, so this issue will have to wait a few more years.

Other questions may arise over the defence available to prisoners. The court has recently agreed to hear the appeal of a Tennessee death-row inmate on the issue of introducing new evidence in capital appeals, which could reopen many cases. It also refused to hear, and therefore let stand, a lower court's decision that a Texas man's death sentence was invalid because his lawyer was asleep for large chunks of his defence.

Subtler issues are also stirring. Some states do not give juries the option of imposing a sentence of life without parole. The racial breakdown of death sentences, which are disproportionately imposed on blacks, may also face new scrutiny.

In its decisions, the court has not indicated any opposition to the principle of capital punishment. But they are a stark reminder of the irreversibility and fallibility of the death penalty. Larry Marshall, of Northwestern University in Chicago, points out that hundreds of people have been executed in the recent past under circumstances which, the court now says, should have precluded the death penalty. These executions were wrong, but there is nothing that can be done about it.

Observations of that sort have led to a switch of tactics by opponents of the death penalty. Rather than questioning the morality of it, they attack it on pragmatic grounds. Doubts about the justness of death-penalty convictions have united outright opponents of execution with supporters who want it used scrupulously. This coalition, however, may weaken as it achieves more success. As questionable applications of the death penalty are increasingly ruled out, those that remain will have more solid legal

foundations.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Senate campaigning

Fighting the good fight

Jun 27th 2002 | DOVER, NEW HAMPSHIRE
From The Economist print edition

In New England, two Republicans face unexpectedly tough races

AP

Jeanne, in the pink

SHE smiled sweetly, looking as maternal as any woman can in a hot pink suit. But, when she launched her campaign for the Senate this month, Jeanne Shaheen, New Hampshire's Democratic governor, hinted that the months ahead could get nasty. New Hampshire is a pretty conservative place, and the seat Ms Shaheen wants is at present held by Bob Smith, a two-term Republican. They are currently neck-and-neck at 35% apiece in the opinion polls, with a hefty 30% still undecided.

The national Republican Party needs to pump a lot of money into New Hampshire. The Democrats have a one-seat majority in the Senate, and the Republicans would rather not spend their cash defending what they still think of as their territory. But the party is having a tough time in New England, where it is also trying to hold on to a Senate seat in Maine.

Ms Shaheen is clever. A three-term Democrat in a conservative state, she has cast herself as a pragmatist who can work with both parties—unlike, of course, the dangerously partisan and unnecessarily right-wing Mr Smith. This is a little unfair. One reason why the quixotic senator is in trouble is because he briefly left the Republican fold in 1999, to run for the presidency as an independent. As punishment for that characteristically maverick act, he now faces a tough fight in the Republican primary from Congressman John Sununu. The primary is scheduled for September, only two months before the big battle.

Mr Sununu has less campaign money in the bank than his rivals, a bit more than $600,000 compared with Mr Smith's millions. But he is raising cash fast (he has had cheques from George Bush senior and his wife, Barbara), and the polls put him, unlike Mr Smith, ahead of Ms Shaheen.

Although he can seem a bit cerebral on the stump, the 37-year-old Mr Sununu cuts a youthful figure compared with Senator Smith's old-school style. His name is well-known; his father was governor of the state before becoming a famously abrasive chief of staff for the older George Bush. Like Ms Shaheen, he is strong in the southern, more high-tech half of New Hampshire. Mr Smith's base is in the north, the paper-mills-and-tourism half of the state. All this would make Mr Sununu a tough opponent for any Democrat. But Ms Shaheen should get plenty of help from her party's presidential hopefuls, already queuing up to visit New Hampshire, scene of the first presidential primary in 2004.

Democratic heavyweights have lately been dropping in on Maine, to pound another Republican there. After one term in Washington, Senator Susan Collins has a respectable record of constituent service (and considerably fewer enemies than Mr Smith). But she has yet to define herself broadly, and Democrats are trying to paint that as a weakness. “When you ask people in Maine what they know about Susan Collins,” says Doug Hattaway, a Democrat, “you get the sound of crickets.”

Chellie Pingree, the Democrat, is a more forceful character. A former state Senate leader, she speaks of “grand visions”, and crafted a popular law that helped Maine lower the price of prescription drugs. Maine is a much more leftish place than New Hampshire. Whereas Ms Collins plays up her bipartisanship, Ms Pingree has been busy scaring voters with suggestions that the Republicans might, horror, regain control of the Senate. The odds still favour the moderate Ms Collins, who has just won endorsements from a gay group. But the fact that she has put out attack ads against Ms Pingree suggests she thinks it is going to be a close race.

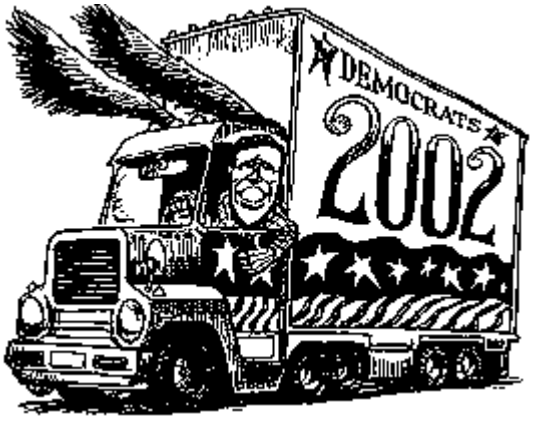
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

The McAuliffe effect

Jun 27th 2002
From The Economist print edition

One of Bill Clinton's more rogueish pals has been quietly retooling the Democratic Party



SEPTEMBER 11th changed everything and nothing about American politics. It placed the war against terrorism at the heart of public life, and reminded Americans that, contrary to academic orthodoxy on the primacy of race, gender, sexuality and the rest of it, the bonds that unite them are stronger than the differences that divide them. But, in terms of partisan politics, it left America as it was on September 10th: deadlocked.

The Florida recount was less a freakish anomaly than the perfect symbol of the state of American politics. In 1996 Bill Clinton was re-elected with 49% of the vote; in 2000 George Bush and Al Gore each won around 48%. In the past three elections the Republicans have held the House with an average of 47.7% of the popular vote to the Democrats' 47.4%. You have to go back to the 1880s to find the country so evenly divided.

Neither September 11th nor the president's astronomical approval ratings have done anything to break the logjam. Recent polls suggest that the Republicans are only a fragile point or so stronger today than they were on September 10th. In terms of party politics, we are still living in the age of Grover Cleveland, Benjamin Harrison and Chester Arthur.

Which is why it is worth paying close attention to one of the mechanics who labour away behind the facade of the American political system, the chairman of the Democratic National Committee, the DNC. Terence McAuliffe—the Mack to his friends—is painstakingly overhauling his party's machine. The result could well be an engine with just enough horsepower to pull America in the Democrats' direction.

Mr McAuliffe was a controversial choice for the DNC job. He is not one of the Democratic great and good. He had never held elected office or chaired an important committee. Mr Clinton imposed him on the party against Mr Gore's express wishes, and many Democrats still think he embodies everything that went wrong with their party under Slick Willie. Mr McAuliffe made his political reputation by raising prodigious sums of money—$600m by some counts—for the party. He made a fortune out of a combination of property development and influence-peddling. It was he who came up with the charming idea of renting out the Lincoln Bedroom, and he who produced his cheque-book when the poor Clintons needed a little place near New York. “He single-handedly destroyed campaign-finance law in the United States,” is the verdict of one veteran reformer.

So the Mack is hardly the sort of man to clean up American political life. But he is just the sort of man who can win elections. Mr McAuliffe is convinced that superior organisation has allowed the Republicans to punch above their weight. There are fewer self-described Republicans than Democrats in America. Democrats enjoy an advantage on most “kitchen-table issues”. Yet the Republicans have been much better at the mechanics of politics—at appointing political fixers like Lee Atwater and Haley Barbour as their chairmen; at applying business methods to the old-fashioned job of getting out the vote; at equipping their headquarters with modern technology.

Everybody expected Mr McAuliffe to fill the party's coffers: raising money is as natural to him as breathing. More surprising is his enthusiasm for such nuts-and-bolts issues as voters' lists. He was shocked by the state of the party's databases when he took over his job. Although Mr Gore won 51m

votes in 2000, his party had only 400,000 voters in its address book (thousands of whom had moved or died). It had e-mail addresses for only 70,000, compared with the Republicans' 1m. The Democrats could not tailor their message to their audience: you got the same spiel about Social Security whether you were born in 1940 or in 1980. Mr McAuliffe wants to produce a database that will put the Republicans to shame, one with 125m names and capable of sending “100 different messages in 100 different languages to 100 different subsets of the party”.

All revved up and no place to go?

A better-engineered Democratic machine is one thing; but it needs someone to drive it and somewhere to go. The Democrats still patently lack a leader. This weekend, Mr Gore is returning to Tennessee for barbecue and mending picket fences. But he is that most vulnerable figure in political life—a weak front-runner. Mr McAuliffe is careful to heap praise equally on such party dignitaries as Dick Gephardt and Tom Daschle; he is equally careful not to present himself as the party's interim leader. But he is less deft when it comes to the Democrats' other deficit: ideas.

Opposition usually provides parties with a chance to recharge their intellectual batteries. Remember the ferment on the left that followed Michael Dukakis's defeat in 1988? By 1990 the publication of a Progressive Policy Institute paper or Mr Clinton's latest musing about training vouchers was an exciting event. Nowadays you only have to compare the neo-conservative *Weekly Standard* with the leftish *American Prospect* to realise that intellectual excitement in Washington remains on the right.

Mr McAuliffe is unlikely to change that. He has the fiercely partisan world view of someone who has been going to party events since he was five. He believes firmly in emphasising the differences between his party and the opposition. Yet modern politics is as much about luring in swing voters as turning out the loyal troops. Mr Clinton was a political cuckoo, adroit at stealing ideas from his opponents' nests.

A leader with fresh ideas would help Mr McAuliffe. But even without them the changes he has put into effect are important. In 2000 the Democrats won the popular vote with the twin handicaps of an unsympathetic candidate and a half-baked message about the people versus the powerful. Is it fanciful to imagine that a more professional party machine might have been able to summon up the 600 or so votes that were needed to capture Florida? The Republicans should beware the Mack.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

South America's financial crisis

A region prays it will not slide down Argentina's slope

Jun 27th 2002 | SAO PAULO
From The Economist print edition

Reuters

Its neighbours thought Argentina's collapse would not affect them. They may be wrong, and few look strong enough to cope

ACROSS South America, a vicious circle seems to have developed. Markets doubt whether countries are able or willing to continue servicing their debts; those countries' currencies and bonds then fall steeply; the cost of servicing their debts rises, and markets worry all the more. This week, financial jitters, especially about Brazil, became acute (see article). Markets have very little confidence that the region's politicians are strong enough—or, in some cases, sound enough—to sort out their economic travails.

In Brazil's case, fears of a default are being driven by uncertainty over October's presidential election. Has Luiz Inacio Lula da Silva, the candidate of the left-wing Workers' Party (PT) and the current poll leader, really renounced forever his previous talk of “renegotiating” Brazil's government debt? Even if he now intends to honour it, will he run the public finances so badly that he won't be able to?

Adding to general nervousness this week were rumours that Anthony Garotinho, a soft-left former governor of Rio de Janeiro, was being pressed to pull out of the race after slipping to fourth place. It was assumed that his withdrawal might favour Mr da Silva, though polls suggest that his support is split more evenly among the candidates.

President Fernando Henrique Cardoso has been trying to have it both ways. On the one hand, he is encouraging voters to fear “another Argentina” if they do not elect the candidate of his centre-right coalition, Jose Serra; on the other, he is insisting to investors that Brazil's public debt is perfectly manageable and taking steps to reassure them, such as drawing down a $10 billion IMF loan and announcing a tightening of the public purse strings.

In an attempt to calm the jitters, Mr da Silva announced last weekend that, if elected, he would pursue the government's new fiscal target of a primary surplus (ie, before debt interest) of 3.75% of GDP for as long as it took to stabilise Brazil's debt. He also pledged to continue fighting inflation, and reiterated a recent promise to honour all the government's debts and obligations. This, and a poll on Monday showing Mr Serra's ratings rising, produced a temporary lull in the market turbulence.

The next day, however, the doubts returned. After all, Mr da Silva retains a clear poll lead, and his promises remain too recent and too incomplete to be entirely reassuring. On inflation, a PT government would either pursue looser targets than now, or maybe none at all, depending on which of Mr da Silva's various advisers is talking. The PT is known to be split between radicals and modernisers, and its leader's

recent moderate talk has not been enough to dispel their fears over which wing of the party is more likely to prevail in government.

Overall, the markets' panic may have helped Mr Serra, encouraging some wavering members of the governing coalition to stay aboard while raising doubts in some voters' minds about backing Mr da Silva. But by raising the cost of borrowing, for businesses and individuals as well as the government, it may tip Brazil back from its recent mild recovery into a recession. If so, more harm than good could be done to Mr Serra's chances.

And beyond Brazil

The situation in the rest of the region hardly gives very much more cause for comfort. This month, dwindling reserves forced Uruguay to abandon its currency-band system and let its peso float (ie, sink) freely. As it plunges deeper into recession, with depositors dashing to withdraw their money from the banks for fear of an Argentine-style freeze, Uruguay has called repeatedly on the IMF for help, and so far this year has received a total of $2.3 billion, most of which it may have to use to prop up the banks.

To stave off default, President Jorge Batlle has persuaded his centre-right allies to back several rounds of fiscal tightening that are intended to cut the deficit from 2.5% of GDP from last year's 4%. But, especially since most of Uruguay's debts are in dollars, the combination of a sinking currency and falling GDP has sent its debt ratio rocketing, making the job ever harder.

Paraguay is also suffering from a sinking currency, a deep economic depression, a banking crisis and, to top it all, constant rumours of a coup against President Luis Gonzalez Macchi's useless and corruption-riddled government. This month the IMF, World Bank and Inter-American Development Bank started discussing a rescue package for the country. Paraguay, as yet, has no fiscal programme.

Argentina itself, the trigger for the current region-wide panic, shows few signs of emerging from fiscal chaos. Last week, the country lost its third central-bank president in little over a year when Mario Blejer, a former IMF official, quit after rowing with Roberto Lavagna, the economy minister. Riots also erupted again in Buenos Aires, with two protesters killed. Meanwhile, an IMF team passed through town without showing any signs of opening its coffers. This is despite the fact that many of its preconditions have now been met—such as getting Argentina's provinces to agree to cut their deficits by 60% compared with last year's, and to stop issuing their own quasi-money.

While several of South America's governments are pushing through austerity programmes to stabilise their finances and persuade the multilateral agencies to continue backing them, the region's peoples are showing signs of frustration over continued economic stagnation, and a growing unwillingness to bear more sacrifices. Bloody demonstrations are not limited to Argentina; violent protests this month have forced both Peru and Paraguay to abandon planned privatisations. Roads are being blocked, workers are striking, peasants are marching on capital cities. In contrast to the attempts of Brazil's Mr da Silva to appear orthodox, opposition leaders in other countries are stoking up the public's dissatisfaction with tirades against the “neoliberal model”. Their alternative is ill-defined, but involves in each case reactivating the economy with large amounts of money their countries simply do not have.

The heterogeneity of the protesters and the incoherence of the proposed alternatives mean that governments' efforts at reform have so far only been hindered rather than forced into reverse. Even in Argentina, where the protests have brought down two successive presidents, the current administration struggles on, trying against the odds to put in place a plausible austerity programme.

But the situation is brittle. The credibility of the liberal reforms proposed by the IMF and other members of the “Washington Consensus” has been dented by the collapse of their former poster-child, Argentina, even though that country's inept politicians deservedly attracted most of the blame. If Brazil, a bigger economy which has tried harder to sort out its finances, ended up defaulting, then the repercussions would be felt not just across South America but in emerging markets the world over.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Venezuela

Middle-class and armed

Jun 27th 2002 | CARACAS
From The Economist print edition

Chavez may have the slums, but the nicer streets have their guns

Reuters

Watch out for granny, she's got you covered

IT WAS about an hour into the condominium association meeting, in a middle-class Caracas neighbourhood, before anyone broached the subject that was on everyone's mind. “What happens if there are acts of vandalism, like in April,” an elegantly dressed young woman asked the police officer who was addressing the meeting. “You tell us to stay calm, but do you have any other advice?”

Ever since the coup attempt in mid-April that briefly ousted President Hugo Chavez, the better-off inhabitants of the Venezuelan capital have been growing increasingly nervous. An e-mail campaign is warning them that, if another military rebellion occurs, they can expect concerted, armed attacks on their homes by pro-Chavez mobs. In response, residents of many apartment buildings, and some whole neighbourhoods, have drawn up defence plans and taken stock of their weapons. “Where I live,” says a retired general, “we've met several times to make plans. To decide where to place the rifles, where to place the small arms, who's going to use which weapon and what the angle of fire should be.”

The middle-class districts of Caracas are sandwiched between slums at the eastern and western ends of the valley. In some cases, posh residential areas rub shoulders with *barrios* in which the rule of law is a joke, and where the police go in—if at all—in flak jackets and with guns drawn. These areas are among the chief bastions of government support. Before Mr Chavez was restored to power, in the early hours of April 14th, widespread looting took place, much of it seemingly organised by groups loyal to the president. Although their main targets were shops and supermarkets, some gun-toting Chavez supporters roared into the nicer streets on motorbikes, sparking panic.

Whatever the true nature of the threat, gun shops in wealthier districts are selling many more weapons and bullets these days. Most popular are shotguns, which are more practical for the non-expert and for which it is easier to get a firearms licence. One shop in the east of the city says June sales were up by 35%, although a good shotgun can cost up to $1,000.

A lawyer who acts as legal counsel to several neighbourhood associations says he has spoken to active-service generals who say they would send troops, “even a tank”, to defend their own and their neighbours' homes in an emergency. “The police and the army will be too busy fighting among themselves,” he says.

In the slums, too, people assume that armed conflict is coming and that the enemy is better prepared. “I have a 24-inch TV,” says the leader of one pro-Chavez community organisation in western Caracas, “and if I can sell it to buy a pistol, I will.” Both sides argue that the other has “nothing to lose”. The middle class is risking nothing, the community leader says. “They hire people to fight and die for them.”

Rumours of a coup, very loud in mid-June, have died down somewhat in recent days. But plans among military rebels to overthrow the government seem merely to be on hold. According to the retired general, the threat of armed conflict among civilians is one factor that might cause the armed forces to intervene. No one would question their right and duty to restore order; and “restoring order” might go as far as the presidential palace.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD THE AMERICAS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Human rights in Mexico

Mary Robinson comes calling

Jun 27th 2002 | MEXICO CITY
From The Economist print edition

A visitor to make the country ashamed

EPA

Very rough justice

COUNTRIES with dodgy human-rights records usually give a wide berth to Mary Robinson, the United Nations high commissioner for human rights. She may not have much power, but she can certainly shine a spotlight on the darker recesses of a “criminal justice” system. Mexico's government is taking quite a risk, then, in rolling out the red carpet for her three-day visit, which begins on July 1st.

The reason for this passionate embrace? President Vicente Fox wants to prove how much he treasures human rights, as part of his ambitious programme of national transformation. Unusually, the government has even invited Mrs Robinson to open a permanent office in the country. Mr Fox, who came to power two years ago after 71 years of rule by the Institutional Revolutionary Party (PRI), thinks that human-rights reform will finally bury the authoritarian past and help Mexico's image the world over.

But a large gap remains, of course, between words in the air and action on the ground. The most respected Mexican human-rights organisation, the Miguel Agustin Pro Juarez Human Rights Centre (known as Prodh), points out that the Fox government has changed little yet. It has knowledge of at least 100 cases of torture, mostly by electric shock and beatings, in the past three years: 217 victims in all, 13 of whom died. Of these, 23 cases (with 57 victims), occurred in the Fox years. Those years have also seen 13 “disappearances” of people in police custody.

Another human-rights group, Global Exchange, points out that many alleged assaults, rapes and killings have been carried out by the army, which probably has as many as 40,000 troops in each of the two most guerrilla-infested states, Chiapas and Guerrero. These crimes are usually committed in the course of military “investigations” of criminal activity, much of it drug-production; they are then tried in military courts, which, under Mr Fox, have not brought in a single conviction.

Mr Fox's minister in charge of cleaning up, Mariclaire Acosta, admits frankly that “torture continues to be a generalised practice in this country.” As a former human-rights activist herself, and a student protester in 1968, no one doubts her commitment. And she has a powerful ally in her fellow “68er”, the foreign secretary, Jorge Castañeda. The government has been busily signing up to every international treaty and convention against torture and extra-judicial punishments to try to force change in Mexico by using outside agencies. Hence the Robinson visit, too.

Ms Acosta is anxious not to raise expectations. The government has a mere six-year life, and “It is going to take a very long time to change this culture. If we can start a process, that will be good enough.” Not quite good enough, perhaps, for Mary Robinson, let alone any Mexican facing the strong arm of the law.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Canada's Anglicans

To bless, or not to bless?

Jun 27th 2002 | VANCOUVER
From The Economist print edition

Homosexual unions land the church in deep trouble

THESE are testing times for the Anglican Church in Canada. Earlier this year, a diocese in the interior of British Columbia was forced to dissolve and sell off its property after it was found guilty of sexual abuse some years ago in native residential schools. Other dioceses still face similar actions. Now the church as a whole seems about to crack apart over a decision to bless the unions of gay and lesbian couples.

On June 14th, the annual synod of the diocese of New Westminster (the third-largest diocese in Canada, encompassing Vancouver and the region round) voted 63% in favour of adopting a liturgical ceremony to bless homosexual unions, the first in Canada to do so. (This is not the same as agreeing to marry homosexuals, which is still not allowed.) The Rev Trevor Walters promptly declared the vote a “tragic moment in history,” called it contrary to church law and Bible teachings, and walked out, taking members from nine congregations with him. These, as it happens, are among the largest and wealthiest in the diocese, and they are now threatening to break away, church assets and all.

The furore is still growing. Two days after the New Westminster vote, 13 of Canada's 40 Anglican bishops issued a statement condemning it. They said it would “cause confusion” for a local diocese to “purport to bless that which Anglicans globally and nationally have decided they cannot bless.” On June 18th, the archbishop of Canterbury, George Carey, released a letter in which he said he was “deeply saddened” by the vote, which went against a 1998 Lambeth Conference resolution as well as the Anglican moral tradition. He considered that the “unity of the Communion is threatened” by the decision, and urged both sides to find some typically Anglican *via media*.

For his part, Bishop Michael Ingham of New Westminster denies that he is flouting church law or tradition. He says he has simply accepted the wishes of lay people and clergy, expressed repeatedly over four years, for a more tolerant approach to gays and lesbians. His opponents, he notes, do not come from the urban bits of the diocese, like Vancouver, where the homosexuals tend to live.

Will Canada's Anglican Church split up? The issue certainly stirs strong emotions. Other churches have dealt with it rather as the New Westminster diocese has done: the United Church of Canada has approved the blessing of gay unions, as have some dioceses of the Episcopal church in the United States. They have gone no further. Conservatives see blessings as the slippery slope that will lead to full-fledged gay marriage, with Anglican priests officiating. But they have not done so yet.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Malaysia

The long goodbye

Jun 27th 2002 | KUALA LUMPUR
From The Economist print edition

After 21 years, Mahathir Mohamad is stepping down—but not for 16 months. His successor is untested

Reuters

THE delegates to the annual conference of the United Malays National Organisation (UMNO) were expecting a surprise—but not the one they got. Many thought that Mahathir Mohamad, the party leader and Malaysia's prime minister of 21 years, was about to call snap elections. The events of September 11th had, after all, revived his flagging political fortunes by putting Malaysia's Islamist opposition on the defensive and distracting attention from the prime minister's autocratic excesses. Instead, in the conference's closing speech, Dr Mahathir dropped a much bigger bombshell: he was retiring, he said, from his party posts, and by extension as prime minister.

Chaos ensued: the party's top brass mobbed the podium in dismay; Dr Mahathir—who still had a page left of his speech to go—was dragged away from the microphone reiterating his determination to quit, and a woman minister lost a heel in the melee. Many Malaysians, watching the drama on television, dismissed it all as a political stunt. Their suspicions deepened when senior UMNO members announced an hour later that they had prevailed upon the reluctant Dr Mahathir to change his mind and stay on. But on June 25th, in a press conference, Abdullah Badawi, Dr Mahathir's deputy, confirmed that the prime minister would indeed be stepping down—although not until October next year. With Dr Mahathir himself now on holiday in Italy, that statement seems likely to stand for the time being.

Of course, Dr Mahathir will have plenty of time to change his mind over the next 16 months. He has threatened to resign several times in the past, and thought better of it. But this time, the decision seems genuine: even senior party members appeared astonished at the announcement, and Dr Mahathir himself wept as he made it. Furthermore, given the lack of any clear challenge to his leadership, he had no need for such histrionics. Malaysians are gradually coming to believe that their prime minister—who is 76—really intends to quit while he is ahead.

Dr Mahathir has often said that he does not want his departure to leave Malaysia in crisis, unlike recent transitions in Indonesia and the Philippines. A long run-up should, in theory, pave the way for a smooth transfer of power. Mr Badawi will gradually take over the prime minister's responsibilities over the next year, and stand in for him altogether during a two-month vacation next year.

But several uncertainties remain. Mr Badawi is seen as friendly rather than forceful. His chief achievement to date has been staying on good terms with Dr Mahathir—something that none of his three predecessors managed. But leading the faction-ridden UMNO, and the squabbling coalition that it heads, will take different skills. Mr Badawi's defenders insist that he will grow in stature once he escapes from his boss's shadow. If he does not, UMNO has three ambitious vice-presidents waiting in the wings, while two of Dr Mahathir's deposed deputies, including the imprisoned Anwar Ibrahim, still retain some following. Some of the rank and file are already complaining that they did not even elect Mr Badawi as deputy leader (he was appointed by Dr Mahathir), let alone select him to run the country.

Mr Badawi's chances of asserting control will depend in part on the timing of the elections, which the prime minister can call at any point until late 2004. Many UMNO members would like to hold them before

the transfer of power, to take advantage of Dr Mahathir's stature and cash in on the party's current standing. But Mr Badawi's supporters want to wait until after the handover, to give the new leader a chance to prove himself.

Mr Badawi will also have to make some tricky decisions about policy. Until Dr Mahathir's shock announcement, the party conference had focused on two of Malaysia's most enduring political debates: the rights of the indigenous Malay majority over the descendants of Chinese and Indian immigrants, and the role of Islam in government. Dr Mahathir made his political career by espousing affirmative action for Malays, and has presided over a mild Islamisation of both state and society. But he recently revised his views, calling on Malays to make do without special treatment, and declaring that the “greening” of Malaysia had gone far enough. At his behest, the party agreed to reduce the number of places reserved for Malays at universities, and rolled back the use of Malay in schools.

Such moves will anger many Malay voters, and perhaps spur their defection from UMNO to PAS, the main, Islamist, opposition party. But Mr Badawi's aides insist he will stick with the new agenda. His degree in Islamic studies, they say, will equip him to confront the Islamists, who have just acquired a new and more aggressive leader of their own.

And then there is the economy, which has sputtered since the Asian crisis in 1997, after years of breakneck growth. Mr Badawi, who has no economic experience, faces growing numbers of unemployed graduates, and the wreckage of the government's attempt to create a class of Malay entrepreneurs. It is a challenge that Dr Mahathir would once have relished.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

Hong Kong and China

Tung's cosmetic ministers

Jun 27th 2002 | HONG KONG
From The Economist print edition

The new "ministerial" system confers neither legitimacy nor accountability

Get article background

AFTER five years of Chinese rule over Hong Kong, the territory's chief executive, Tung Chee-hwa, has taken his biggest step yet to reshape the political structure he inherited from Britain. On July 1st, the anniversary of the handover, a team of political appointees will take over the policymaking roles hitherto played by civil servants. The new "ministerial system", as it is dubbed, may strengthen Mr Tung's power. But it will do little to make his lacklustre administration more popular.

China's President Jiang Zemin will be guest of honour at the anniversary celebrations in the Hong Kong Convention and Exhibition Centre, the same venue where he watched the British flag being lowered in 1997. The ceremonies will include the swearing in of Mr Tung for another five-year term of office, as well as the formal appointment of his 14-member ministerial team. Although Chinese officials say that the end of British rule heralded a new era of democracy in Hong Kong, no one dared to offend China by standing against Mr Tung when nominations for his job were solicited in February (even if they had tried to stand, pro-democracy politicians would have won scant backing in an electoral committee made up largely of China's supporters). Neither the public nor the legislature had any say in Mr Tung's choice of "ministers".

Officials say the new system will make policymakers more personally accountable for their decisions and protect civil servants from political pressures. But while this may sound like a step towards the kind of system practised in many democratic countries, in reality it will not ensure that Hong Kong's policymakers become any more accountable or the civil service any more neutral than they are today. The legislature will have no power to remove the "ministers". And many pro-democracy politicians argue that the new system will put even more political pressure on top civil servants, who will no doubt be anxious to please the appointees above them. One reason why Mr Tsang's predecessor, Anson Chan, left her job in April last year was her belief (though never stated publicly) that the proposed ministerial system would lead to the politicisation of the civil service. "The effect of the new ministerial system is that Mr Tung is even more powerful than before. But then even though he is a dictator, he is really a puppet of Beijing," says Martin Lee, leader of the Democratic Party, the largest in Hong Kong's legislature.

The new system could well make life easier for the central government in Beijing. Constitutionally, it has final say over the appointment of top officials in Hong Kong. After the handover in 1997, it accepted all of the officials who had been appointed under the British—not because it liked all of them, but because it wanted as smooth a transition as possible. But privately, officials in Beijing feel the Hong Kong civil service has been slow to swing round to their way of thinking.

In spite of these changes, few expect any big policy shifts—at least not imminently. But pro-democracy activists, who generally admit that the past five years of Chinese rule have been more benign than many had expected at the time of the handover, do fear that life may get tougher in the years ahead. During his first term, Mr Tung avoided taking action on a requirement in Hong Kong's constitution, drafted by China, that the territory pass laws prohibiting crimes such as secession and subversion, as well as political links with foreign organisations.

The government is clearly worried about the impact such legislation might have on Hong Kong's image abroad. But Donald Tsang, Hong Kong's chief secretary, says the government is likely to promulgate the required laws during Mr Tung's second term. "I do not think we should put this off forever. Sometime we

have to face the music," he says.

Chinese officials will certainly be glad to hear him say so. They do not appear to want a sweeping crackdown against dissent in Hong Kong, but they would like legislation in place that would give them a freer hand. In an interview this week with a Hong Kong television station, China's deputy prime minister, Qian Qichen, suggested that the Falun Gong spiritual movement could be in breach of future anti-subversion legislation if it continued to contact "foreign forces".

In the next five years, Mr Tung will also have to examine possible political reforms to be introduced in 2007, the earliest date when Hong Kong's constitution allows for a fully directly-elected legislature and chief executive. But here, too, the prospects are bleak. In another interview this week, Mr Qian said he was against rapid moves toward full democracy. "One cannot have Hong Kong emulating the systems of other regions," he said. Mr Tung and his ministers would surely agree.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

India's economy

Marching on

Jun 27th 2002 | DELHI
From The Economist print edition

Reform in India is continuing apace—but war jitters don't help

FOREIGN ownership of the press is a hoary Indian taboo. On June 25th the government broke it, allowing foreigners to buy into newspapers and magazines (up to 26% of the equity in news publications and 74% in others). Though long mulled, the announcement looked like first aid for India's battered reputation in international markets. Foreign governments are warning their citizens against travel to India while there is a risk of war with Pakistan, its nuclear armed neighbour—so the invitation to foreign press barons is meant as a signal that India is open for business. It is especially striking because the government has been noisily angry about a recent article in *Time* magazine portraying the prime minister as too old and sick to be trusted with nuclear weapons.

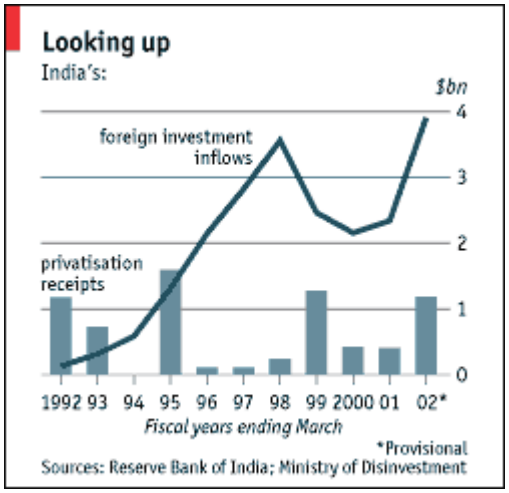
War jitters have rattled what looked like a fragile recovery of optimism about the economy after several glum years. Overall, growth has not been bad: India's average GDP growth rate of 5.4% over the past five years is among the world's fastest. But the early 1990s were better. Lately, most of the growth has come from services, which account for about half of GDP. Agriculture has been erratic; industry, the engine of growth and employment in most developing countries, listless.

Now there are signs of revival. Overall growth may not exceed last year's rate of 5.7% (the National Council of Applied Economic Research forecasts a growth rate of 5.5% for the fiscal year ending in March). But most economists expect both industry and private investment to improve.

Some of this will come from a recovery in world trade, which should raise exports, and from the money put into farmers' pockets by last year's abundant crops. But some is owed to quiet corrections of some of the well-known design flaws in the Indian economy. The government is energetically building roads, for example. Apart from boosting such industries as cement, this widens bottlenecks that constricted growth in the past. Telecommunications reform has a similar effect. The government has encouraged interest rates to fall by cutting deposit rates it controls; soon it will let the market determine them.

India has also seemingly rid itself of its traditional aversion to privatisation (see chart). In the past few months the government has sold the biggest car maker and the international telephone company, among other things, so that this year's privatisation receipts should be by far the biggest ever. It has also largely dismantled administered pricing of fuels. India is reforming more than it often gets credit for.

Last year's record inflow of foreign direct investment may be an acknowledgement of this. But no one thinks the government has done enough to lift growth much past 7% in the foreseeable future. Government finances remain a mess, with the central government deficit reaching 5.9% of GDP in the last fiscal year and the combined deficits of the state governments nearly as high again. In many countries this would trigger a balance of payments crisis; in India it keeps real interest rates forbiddingly high, even after the reductions, and forces governments to save where they should be spending. India has not reformed its labour laws, which discourage companies from firing (and so hiring) or done much about such handicaps as electricity that is costly and often unavailable.



None of this will matter much if fears of war continue to spook potential customers and investors. Advisories against travel to

India are now merely delaying new business, but could drive it away if maintained much longer, says Kiran Karnik, head of NASS-COM, which represents the IT industry. The tensions may already have cost India at least one investment: a big American sock manufacturer was thinking seriously of setting up a factory that would have employed 200 people. No longer. “With the political situation being the way it is, why would we want to put ourselves in that position when we have four or five other options in a more stable environment?” asks a company executive. Time for a peace dividend?

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

India and Pakistan

The absence of war

Jun 27th 2002 | DELHI
From The Economist print edition

...does not yet mean peace

Get article background

IN A crisis, attention tends to wander before the danger passes. India and Pakistan are not as close to war as they were a few weeks ago, before American diplomats extracted from Pakistan a promise to end infiltration by terrorists into Indian-administered Kashmir from the part of the state controlled by Pakistan. Pakistan's president, Pervez Musharraf, has largely kept his promise, and India has pulled back its navy from the Pakistani coast and has resumed giving leave to its troops.

But the armies of the two nuclear powers are still mobilised. The risk of war will remain at least until after October, the expected date of elections on India's side of Kashmir. If, in India's judgment, Pakistan does not disrupt the election, dialogue could begin and the armies might stand down.

Just how touchy things still are was evident this week when General Musharraf appeared to disavow his commitment to end infiltration permanently. “I'm not going to give you an assurance that for years nothing will happen,” he told *Newsweek*. That angered the Indians, who in any case do not trust the general. To stop India from lashing out, the American secretary of state, Colin Powell, swiftly spoke to General Musharraf and got him to affirm once again that his ban on infiltration is permanent. Because India's government still trusts the Americans, it relented.

The absence of war does not yet feel like peace because each side is withholding what the other considers vital. There is no evidence yet that General Musharraf has dismantled what India calls the “infrastructure of terror”, which includes camps and other installations in Pakistan-administered Kashmir. Until that happens, India will not believe that General Musharraf is a reformed character. Hardliners in India's government will blame him for any terrorist attack within India.

For its part, Pakistan is annoyed by what it regards as the grudging pace of India's de-escalation so far. It is impatient for dialogue to begin on Kashmir. The longer talks are put off, the less chance there is of altering the terms of Kashmir's partition between India and Pakistan in Pakistan's favour. That is especially true if India holds elections successfully in its part of the state. Each country thus possesses an excuse for resuming hostilities. So far, the Americans have arranged a truce, not a peace.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Zimbabwe

From breadbasket to basket case

Jun 27th 2002 | HARARE
From The Economist print edition

AP

Faced with famine, Robert Mugabe orders farmers to stop growing food

Get article background

JUNE in Zimbabwe is midwinter, but because of the country's subtropical climate, its commercial farmers can grow food all year round. Right now, they should be tending the winter wheat, which is usually ready for harvest in September or October, and preparing their fields for warm-weather crops, such as maize, the national staple. But President Robert Mugabe has commanded them to park their tractors and stop farming. With half the people in Zimbabwe on the brink of starvation, this is, even by Mr Mugabe's standards, an exceptionally bad idea.

From June 25th, some 2,900 white farmers, whose farms have been earmarked to be seized and given to blacks, were legally obliged to cease work. Those who continue to plough, weed and scatter seeds face jail terms of up to two years. Generously, the government said it would allow them to continue living in their homes for another 45 days, but then they must leave. In theory, they are permitted to take their portable possessions away with them, but in practice, police and ruling-party militiamen at roadblocks often prevent them from escaping with anything too valuable. Mr Mugabe's cronies, relatives and assorted mobsters covet their pick-up trucks and threshing machines.

In all, 95% of commercial farmland has been slated for “redistribution”. Some 60% of commercial farmers must halt work immediately. Another 35% have only received preliminary notices of confiscation, and so may carry on farming for a while longer. The remaining handful have so far escaped, either through the incompetence of their persecutors or because they have friends in government.

Meanwhile, Zimbabwe is facing its worst food shortage in 60 years, caused by drought and several years of violent harassment of the nation's most productive farmers. By the government's own estimates, nearly 7m of the country's 13m people will be without adequate food in a few months. The World Food Programme (WFP) which, with other donors, is already feeding 600,000 Zimbabweans, says that the food shortage is “virtually universal throughout the country” and predicts that, without a huge increase in imports or food aid, “severe malnutrition and death caused by hunger will occur in the coming months”.

By the government's own estimates, nearly 7m of the country's 13m people will be without adequate food in a few months

White commercial farmers normally produce a third of Zimbabwe's cereals but,

if evicted, may find it a bit difficult to continue feeding the nation. Many vow to carry on farming regardless. “How can the government tell me not to tend my wheat crop when so many people are going hungry?” said one, who preferred not to be named for fear of retribution. “As long as I'm on this farm I am going to feed my pigs and till my fields.” Two farmers went further, filing a lawsuit to have the evictions ruled unconstitutional. But others are winding up their operations and thinking of moving to Zambia, Mozambique, New Zealand or just about anywhere else that will have them. Black farmworkers and their dependants—2m people in all—face destitution.

Mr Mugabe says that his “fast-track land reform” will redistribute wealth from rich whites to poor blacks, from whose families the land was stolen in colonial times. At a recent conference in Rome, he called the programme “a firm launching pad for our fight against poverty and food insecurity”. But since the land is usually handed out to ruling-party loyalists, rather than skilled farmers, the result so far has been the opposite. Cereal production in Zimbabwe has fallen by 67% since 1999-2000, according to the WFP, and looks set to tumble further.

Mr Mugabe does not seem to care. After stealing a presidential election in March, his chief concern has been to punish those who dared to support his opponent, Morgan Tsvangirai. He suspects white farmers of having bankrolled Mr Tsvangirai's campaign, and is determined to ensure that they cannot do so again. He has also targeted critical journalists, ten of whom, including this correspondent, are facing criminal charges for articles they have written. Two prominent lawyers were briefly detained this month and charged with plotting to overthrow the government. As evidence, the police produced a semi-literate letter that the erudite accused allegedly wrote to British diplomats. The British high commissioner (ambassador) to Harare, Brian Donnelly, is accused of “masterminding” a plot to topple Mr Mugabe and is under 24-hour surveillance.

Mr Tsvangirai himself faces treason charges, which could carry the death penalty. And starving peasants who are suspected of having voted for him are denied food aid in areas where the ruling party controls its distribution.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Kenyan corruption

The view from the slums

Jun 27th 2002 | KIBERA
From The Economist print edition

Kenya's rulers keep the poor poor, but still win elections

AP

Stamp out bribery? Moi?

BUREAUCRATS rarely venture into Kibera, a Nairobi slum of narrow, muddy alleys. When they do, David Mutua closes and locks his shoe shop. However, every week he has to visit a wholesaler in the city, and when city officials see him carrying a big bag of shoes, they harangue him until they find some rule he has broken, and then demand bribes to let him off. “They never ask for less than 500 shillings ($6),” he laments, “And sometimes as much as 20,000. We try to avoid them, but sometimes they get you five times in a month. They are bad people.”

Mr Mutua's problems are those of Kenya writ small. President Daniel arap Moi's government has allowed the country's roads and sewers to crumble and rust. People with power, from cabinet ministers to petty officials who persecute unlicensed traders, have been allowed to prey upon the citizenry. As a result, Kenyans are a fifth poorer now than they were when Mr Moi took over in 1978. This is better than Zimbabwe, where incomes have halved since Robert Mugabe was first elected in 1980, but still wretched.

Unlike Mr Mugabe, Mr Moi has avoided becoming a pariah. He is more tactful. Whereas Mr Mugabe calls the British government a bunch of “gay gangsters”, Mr Moi offers to support America in its war on terrorism. But this has not been enough to convince donors to resume their support for the Kenyan government, which most have withdrawn because of corruption. Anxious to woo them back, Mr Moi has proposed new laws against corruption, set up commissions and even recently invited foreign experts to come to Kenya to help out. To his frustration, the donors remain unconvinced.

They might trust him more if he had ever seriously tried to purge his administration of crooks. But Kenya's Big Men seem untouchable. Alleged rapists in high places are not prosecuted, so mere bribe-takers assume they have nothing to fear. Graft supplements MPs' salaries (soon to be raised, in any case, by 700%, to a healthy $120,000 a year), and the money helps them to win elections.

Since the ruling party, KANU, has no ideology to speak of, it often resorts to bribing voters. One means is via the *harambee*, a Kenyan custom whereby people gather to donate money to community projects. Traditionally, *harambee*s worked as self-help groups, but according to Transparency International, an anti-corruption lobby, they are now usually a vehicle for buying votes. In 1997, the year of the last election, KANU politicians dished out some 900m shillings at *harambee*s. This was 0.15% of GDP—as if an American party had doled out $12 billion in the streets.

Mr Moi's other tactic is to inflame ethnic divisions. At the end of last year, he announced that tenants in Kibera should not pay such high rents. But he did nothing to make this plausible. The immediate result was that tenants (mainly from the Luo tribe) started fighting landlords (mainly Nubians). Such mayhem spurs Kenyans to vote along tribal lines, which, in turn, allows KANU to stay in power so long as Mr Moi gives cabinet posts to members of each major tribe. The next election is due early next year. Mr Moi is barred by the constitution from standing, but hopes to nominate a pliant successor. Kenya can expect more political violence, and Mr Mutua may need a bigger lock.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Egypt's Islamists

Kinder, gentler Islam

Jun 27th 2002 | CAIRO
From The Economist print edition

A reassuring message from Egypt's Muslim militants

MUCH of the world, particularly since September 11th, has taken to associating Islam with bearded, gun-toting fanatics. But in Egypt, a country that has been an incubator of modern Islamist militancy, the most fashionable face of the faith today sports a trim moustache, a jacket and tie, and the jovial manner of an insurance salesman. The rise to fame of Amr Khaled, a Cairo accountant turned star televangelist, is just one sign of the accelerating depoliticisation of Islam.

During the 1980s, many Egyptian youths saw religion as a tool for revolution. Though few in number, the radicals set the tone of debate, becoming heroes to some and villains to many. But nowadays, younger Egyptians are turning to versions of Islam that seek to match individual needs rather than utopian ideals.

“There is a clear shift from the earlier emphasis on an Islamist polity to one on personal piety and ethics,” writes Asef Bayat, a sociologist, in Isim, an online journal about modern Islam. The new approach appeals particularly to privileged Egyptians who would once have shied from deep commitment to the faith.

Mr Khaled is a conservative. But he has little in common with the turbanned scholars of Egyptian tradition, or the fiery militant preachers of the 1980s. His message is inclusive rather than patronising, his style coaxing not hectoring. The veil is to be worn, not from fear of hell-fire, but because God will love you better. Dating is okay, so long as you don't touch.

Although he has no formal religious training, Mr Khaled draws thousands of fans, most of them women, to weekly “lessons” at a mosque in a remote Cairo suburb. His television show, broadcast throughout the Arab world on an Islamic satellite channel and subtitled in English, brings studio audiences to tears with talk of sacrifice and martyrdom. His cassette tapes outsell Egypt's biggest pop singers.

The success of Mr Khaled's repackaging of orthodoxy reflects the need, felt keenly by Egypt's burgeoning middle class, to steer a course that avoids the stifling traditionalism and folk superstition of the past, as well as the more recent opposing “dangers” of blind zealotry or brash westernisation. The demand for this brand of modernised but very traditional Islam is also being met by a plethora of slick religious websites, and by a “dial-a-*fatwa*” hotline run by a rival new-wave Egyptian preacher, Khaled al-Guindi.

Yet it is not just the trendy media that are projecting a kinder, gentler Islam. The fading of the Islamists' vision also reflects a profound ideological shift among Egypt's militants. This change began in response to the failure of the armed insurgency in the mid-1990s that cost more than 1,000 lives, and ended with as many as 30,000 suspected Islamists in jail. Even as the bloodshed peaked with the massacre of 58 tourists at Luxor in 1997, leaders of the largest radical group, the Gamaa Islamiya, called from their prison cells for abandoning violence. Terrorism was bad, they said, not just because it alienated mainstream society, but because it was wrong under Islamic law.

That message has gained wider resonance since the terrorist attacks on America. A slew of recent books by Egypt's former militants have excoriated Osama bin Laden for harming Islam, and used Islamic scripture to explain why peaceful means are in the interest of the faith. Repentant Islamist leaders, all still imprisoned and some of them still on death row, have even taken the peaceful message on a state-sponsored road show to the jails across the country, where as many as 10,000 of their followers still languish.

A slew of recent books by Egypt's former militants have excoriated Osama bin Laden for harming Islam

Interviewed by a government-owned magazine at a top security prison, some Gamaa Islamiya leaders went further. “We owe the Egyptian people an apology for the crimes we committed,” said the current head of the organisation, Karam Zohdi. Not only did he take responsibility for the “false ideas” and “mistakes” of the past, but he suggested using the revenue from their recent books to pay compensation to victims of violence.

The key change in their thinking, added a former commander of the group's now-disbanded military wing, was the idea that *jihad* should not be an end in itself. It should only be a means to the real goal, which was “to bring people to the religion of God”. Which is pretty much the same message that Egyptians are getting from their television sets.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Iran and earthquakes

Learning from the tragedy

Jun 27th 2002 | TEHRAN
From The Economist print edition

In a tremor-prone country, flimsy homes cost lives

Reuters

The long, sad task of clearing up

A FEW days before the earthquake that struck north-west Iran on June 22nd, Tehran city councillors stomped out of a municipal meeting in a rage at building restrictions that were recently introduced by the mayor, Muhammad Hassan Malek-Madani. The earthquake's 230-odd victims perished because they lived in flimsy houses, made of mud and brick; most of Tehran's mushrooming high-rises, although reinforced with steel, have been built with a similar disregard for safety. If a big earthquake were to hit the capital, which bestrides some major fault lines, experts expect more than a quarter of Tehran to collapse, killing tens of thousands. Could the mayor's scheme force developers to build more responsibly?

Mr Malek-Madani, his supporters say, is trying to reverse a trend that began in the 1990s, when Iran was recovering from the devastating effects of its war with Iraq. The then mayor of Tehran, Gholam-Hossein Karbaschi, increased the city's revenues more than fifty-fold by selling stacks of building permits. He used the money to lay highways and parks, which pleased many Tehranis. But the number of new homes grew so fast that the city's sewers and garbage collectors could not cope, and the economy's sluggishness prevented many of Tehran's new residents from finding work. By the time Mr Karbaschi was jailed (allegedly for corruption), pollution, crime and unemployment had soared.

The legacy of those years, according to Ebrahim Asgharzadeh, a municipal councillor, is a still powerful “triangle of corruption”, made up of developers, bureaucrats and building regulators. Developers increase their profits by flouting building standards. Officials take a cut to look the other way. Infirm buildings collapse each week, sometimes because they cannot withstand the vibrations from nearby construction work.

Mr Malek-Madani has outlawed construction in seven of Tehran's 22 districts, and proposed that the ban be extended to a further nine. You might expect Mr Asgharzadeh to welcome this, but he does not. Although he agrees that construction must slow, he says the ban is designed to help the mayor's developer friends; house prices have soared since March, when the ban came into effect. Furthermore, the sale of building permits accounted for more than 90% of municipal revenues last year. How, Mr Asgharzadeh asks, does the mayor propose to make up the shortfall?

By squeezing more taxes and charges out of the citizenry, retorts Muhammad Atrianfar, the head of the council, and an ally of the mayor's. The council is looking at ways to raise rates, which are laughably low. And when the city starts selling building permits again, they will be fewer and dearer. The revenue, says Mr Atrianfar, will finance schools and other amenities.

Dissatisfied with the slow pace of reforms pursued by President Muhammad Khatami, whose allies dominate the council, Mr Asgharzadeh last year tried unsuccessfully to unseat the president. His opposition to the building ban, Mr Atrianfar suggests, may be motivated by a desire to avenge himself on Mr Khatami's supporters in the council, who have ostracised him. Yet Mr Asgharzadeh, too, owes his position to Mr Khatami. It was the president, two years after he took office in 1997, who insisted on holding the repeatedly delayed council elections.

Predictably, the president's conservative opponents have not co-operated. The city is powerless, suggests

Mr Atrianfar, to force the conservative-run armed forces and the state broadcaster to pay the millions of dollars of back taxes they owe. Yet everyone agrees that Tehran needs to be run differently, and that earthquake-proof construction should be a priority.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Land reform in Russia

A shiny free-market blueprint. But will it work?

Jun 27th 2002 | MERCHANSKOYE, SOUTHERN RUSSIA
From The Economist print edition

Novosti

Russia is making a big symbolic break with the past by freeing the market in agricultural land. Turning theory into practice will be harder

Get article background

A TOTEM lies in fragments. State control of land symbolised Soviet communism. After a wrenching collectivisation that cost millions of lives, huge farms, managed either directly by the state or through sham collectives, gobbled resources and dribbled results. Soviet agriculture was a byword for waste, inefficiency and farm labourers' drunkenness. Now the land is to be freed for sale to whoever (except foreigners, who may only lease it) thinks he can run it best.

One big shift has already happened since 1991. Nearly 90% of Russia's 190m hectares (470m acres) of agricultural land is now privately owned. But without a legal framework for buying and selling, the land market is small, bureaucratic and murky. For private farmers, consolidating small plots into sensibly sized holdings is all but impossible. So is using land to borrow money for new equipment. Though some remaining big farms have been working better in recent years, and harvests are up, the number of individual farmers, who are wide open to harassment, both criminal and official, has declined. Russia's villages, home to more than a fifth of its people, are among the poorest and most depressing places in the country. Now, following a law on urban land last year, a new bill that has just been passed by the Duma, the lower house of parliament, has set a legal framework for the sale and purchase of farmland.

It all sounds wonderful. Land will now be, more or less, an asset like any other. This marks a huge psychological move from the Soviet past, and from earlier centuries of serfdom. But as with many impressive reforms of the past two years, there are still tricky obstacles before splendid theory can change dismal practice.

The biggest snags, as usual, are bureaucratic: the people needed to make the reforms happen are those who have the biggest interest in blocking them. Though stunted, the land market has been a lucrative business for officialdom.

Even optimists agree it will take years before a real land market develops; pessimists think of a generation. For a start, ownership is unclear. There is no proper land registry, detailing the physical boundaries of each piece of land. The state land registry is short of cash and people. Optimists there hope to have a publicly accessible database in about five years' time.

Then there is bureaucratic infighting. There is no single authority dealing with the land market. Among the powerful bodies wanting their slice of the pie are the ministries of tax, justice and state property, and the state construction committee. That confusion is replicated at a local level.

Last year's urban land code illustrates the problem. It covers the most attractive land for investors, but has had little practical effect. Parts of the code are so badly drafted and vague that even experts argue about what they mean. Local government still has huge discretion. In Moscow, by far the richest part of the country, the city authorities have barely implemented the new law at all. That may be illegal, but nobody has taken them to court.

One reason is that for investors tough and wily enough to be in Russia at all, the old system works well enough. Despite its greedy and interfering city government, Moscow is currently enjoying a notable construction boom. Those who want to invest in the countryside have been doing so anyway, leasing the land they need, sometimes with impressive results. Yet for all but the biggest and most skilful, the problems are legion.

No garden of Eden

If anywhere in Russia should be an agricultural success story it is the Kuban, a region on the Black Sea coast with fertile soil, a balmy climate, a sturdy peasant tradition and easy access to the outside world. In Merchanskoye, a village about an hour's drive from the coast, a bunch of private Russian businessmen has leased 2,800 hectares of land from the members of a defunct collective farm, to grow vegetables.

A year ago, hopes were high. The new managers paid wages punctually, for the first time in years. The neatly tended fields were in sharp contrast to the ruined buildings and fallow land roundabout. Now things look bleaker. Neglected drains turned out to have become blocked, and the land got waterlogged during the autumn rains. The most valuable crop, rice, was not fully harvested. Russian food-processing companies are proving capricious customers. The biggest problem, though, is a shortage of good workers: among 150 jobs, 12 are unfilled, and some workers commute from 60km (37 miles) away. Life in the village is bleak, and many of the best have moved to the town. Those who are left mostly prefer subsistence farming, sometimes supplemented by pilfering.

The new manager of the Merchanskoye farm, Alexander Ksendzuk, thinks of contract labour from abroad. He is intrigued by a news report from a farm in the neighbouring Stavropol region that uses Chinese workers, willing to toil from dawn to dusk for $100 per month. And the new land code? “Even if we could buy the land, we wouldn't want to,” he says. It costs little to lease, and there is plenty more if he needs it. His main hope is government subsidies and protection—these, he says, are what make agriculture work properly in other countries.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Mainland Russia, Kaliningrad and the EU

Between two worlds

Jun 27th 2002 | KALININGRAD
From The Economist print edition

One bit of Russia will soon be surrounded by the EU

IT SHOULD be bringing Russia and the European Union closer together. In fact, Kaliningrad, a pocket of Russian territory sandwiched between Poland and Lithuania, is dividing them.

The trouble is that Poland and Lithuania are due (maybe) to join the EU in 2004, and with it its Schengen agreement. That makes travel inside the EU easy, but, logically, entry to it hard. Russians going to or from Kaliningrad now face a mild transit regime. It will become a tough one. Russia says no to that. Why should its citizens wanting to travel around their own country need permission from a foreign official, Vladimir Putin asked angrily this week? He thinks the EU's attitude “worse than the cold war”. The EU is willing to make concessions; eg, to allow Kaliningrad's 950,000 people cheap long-term visas. But Russia wants equal rights for all its citizens. One idea is non-stop trains across Lithuania; another, subsidised flights.

The big question, though, is the long-term future. Kaliningrad, until 1945 the northern half of former East Prussia, has been isolated, poor and badly run since communism collapsed. It is opening up a bit: the Kremlin has at last allowed a western country, Sweden, to open a consulate. But the local administration, though less gangster-ridden than before, is still dim and slow. Western attempts to give money for things like new drains stall on the locals' inability to handle it.

The status quo is costly all round. Smuggling is endemic, AIDS rife, the coast badly polluted. Although Russian forces in Kaliningrad are as run-down as elsewhere, tactical nuclear weapons still come and go, despite Kremlin denials. Nosy westerners worry that they are badly guarded too. “A good place for al-Qaeda to go shopping,” says one.

Yet Kaliningraders are reaching westward. The place is shabby, but still far more European than other provincial Russian towns. Small businesses are thriving. Compared with Vilnius, Lithuania's sleepy capital, Kaliningrad's city centre is lively, if raffish.

Most important, the local mentality is altering. One survey suggests that around 80% of those under 25 have been to Western Europe (Poland included therein), while only 15% have visited other parts of Russia. Some Kaliningraders call themselves EuroRussians, and feel they have more in common with ethnic Russians in Latvia and Estonia than with their own fellow-citizens in the “mainland”. Some hotheads even want Kaliningrad to become a fourth Baltic country; many want more autonomy. The Kremlin's real difficulty will not be reaching a deal with the EU, but keeping the locals convinced that being part of Russia is a good idea.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

After the EU summit

Snore, snore

Jun 27th 2002 | SEVILLE
From The Economist print edition

The summit was a non-event. But action on enlargement will have to come

WAS it the hot weather? The World Cup? Whatever it was, the European Union's Seville summit on June 21st-22nd was among the sleepiest in its history. The grandees cleared their throats about illegal immigration, navel-gazed about how to run more effective summits in future, and got nowhere on plans for an EU rapid-reaction force. But they can't go on like this: the EU has promised that by December it will conclude negotiations with ten countries that want to join.

The haggling has been under way for several years, and most of the details have been sorted out. But not the trickiest issues. Denmark, holding the chair for the next six months, will have to chivvy its partners.

The hardest nut is farm policy. The EU is offering the newcomers only 25% of the level of direct subsidy available to today's EU farmers, building up to 100% over ten years. Peanuts, say the applicants, especially Poland. But several current members—Britain, Germany, the Netherlands, notably—look at that build-up and say they want no direct payments at all; “no phasing-in, without phasing-out”, as the Dutch put it, insisting that any such deal for the newcomers must be linked to a guarantee that the whole system will eventually be scrapped. No way, say France and Spain, their noses deep in the farm trough. The Danes will first have to settle the EU's internal disputes and then sell its package to the applicants.

The timetable is tight. It is generally agreed that no deal can be struck until after Germany's September elections. And farming is not the only hurdle. Ireland plans a second referendum on the Nice Treaty, which prepares the EU institutions for enlargement, in October. A repeat of last summer's No vote would leave the EU in a pickle; hence the leaders' statement in Seville that the treaty poses no threat to Ireland's cherished neutrality.

Then there is Cyprus. The EU leaders reiterated that they would much prefer to admit a united Cyprus. But talks between the leaders of the island's rival communities are bogged down. The EU now looks prepared, if it has to, to admit what would, in practice, be just the Greek-Cypriot bit of the island; mainly because Greece has threatened to veto the entire enlargement process if it doesn't. But some other EU country may yet balk at that.

And illegal immigration, which was meant to be the key question at Seville, and which especially worries the Danes? A question it was, but without an answer. Two ideas were on the table: a new EU frontier police force; and penalties for third-world countries refusing to take back illegal immigrants expelled from the EU. Both ideas foundered. Even before Seville, it was plain that EU governments were not ready yet for a common border guard. So they agreed to start some joint operations between national forces, and to commission studies of deeper integration.

The idea of cutting aid to recalcitrant poor countries got nowhere at all. Tony Blair and Jose Maria Aznar had pushed it, and most of the others were ready to go along. Jacques Chirac and Sweden's Goran Persson flatly refused. So the EU says it will offer “carrots not sticks” to the countries of emigration: help us, take your over-enterprising citizens back, and we'll help you.

There were other setbacks at Seville. The “stability and growth” pact that attempts to ensure fiscal discipline among members of the euro zone was watered down further. France's new government is eager, it says, to carry out its campaign pledges of tax cuts. That, as German officials had cheerfully pointed out, puts it at risk of breaking its commitment to balance its budget by 2004. A fudge enabled the French to wriggle free; which may well be economic sense, but was hardly a triumph for euro- or

Euro-harmonisation. And Mr Chirac had another success, blocking efforts to introduce majority voting at future summits. France suspects it might one day be sand-bagged over agricultural reform.

Meanwhile, dreams of an EU rapid-reaction force remain blocked by discord between Greece, an EU member, and Turkey, outside the EU but a member of NATO, whose “assets” would be needed. Efforts to sort this out on the eve of Seville failed.

Much of this and more will be in the Danes' in-tray when they take the chair on July 1st. But enlargement is the big one. Though the Danes talk of solving the farm subsidy issues by November, the really difficult EU issues are generally settled in marathon last-minute negotiations at the top. Forget sleep at Seville, expect all-night haggling in Copenhagen in December.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Spain's politics

Warnings for Aznar

Jun 27th 2002 | MADRID
From The Economist print edition

The prime minister has got above himself, say his critics

AP

ETA did it

IT HAS been raining on the prime minister's parade. Six fairly impressive years into what he insists will be no more than a two-term (eight-year) stint, Jose Maria Aznar hoped that the Seville summit would bring his country's six months in the EU presidency to a triumphant close. Instead, the summit was preceded by a general strike on June 20th; ETA, the Basque terrorists, grabbed headlines with five explosions in other parts of Spain; and the summit itself squashed Spanish-British plans for being nasty to countries that will not take back illegal immigrants.

The strike was the trade unions' first serious muscle-flexing since Mr Aznar came to power. The response was mixed. Some Socialist-run regions, such as Andalusia and Extremadura, where the administration closed for business, heeded the call. Central Madrid and Barcelona shut down; the suburbs remained open. There were no trains and few planes, but quite enough metro services and buses. Many journalists joined the strike, but the papers were published. Schools stayed open, but teachers stayed away. Offices and factories registered patchy attendance.

In sum, said the government, a damp squib; a victory, claimed the unions, pointing to large demonstrations in sundry big cities. The Socialists' leader, Jose Luis Rodriguez Zapatero, who had dithered at first, jumped on the strike bandwagon.

The strike was called in protest against Mr Aznar's plans to change laws on hiring and firing and on unemployment benefit. But it turned into a wider protest, directed not so much at what he is doing, as to how he does it, at the style rather than the substance of his government.

The substance is solid. He has tackled issues that needed it: education, water distribution, the legal system, terrorism, immigration. The economy has come along nicely, and many more jobs have been created. Style is another matter.

In his first term, 1996-2000, Mr Aznar, needing their votes in Parliament, had to be nice to regional “nationalist”parties, notably the Catalans. He took care to placate the unions before passing a first batch of labour-law reforms. He came across as the very model of a centrist European leader and studiously cultivated a friendship of political convenience with Tony Blair. Next time round, in 2000, the voters, reassured that there was no hint of the old, noxious right about his People's Party, gave him an outright majority.

And that, say critics, went to his head. Mr Aznar took it as a mandate to press ahead with what he thought needed to put Spain where in his view it rightly belongs, at the top of the European league. He set a cracking pace for his ministers and reduced time for consultation, prompting protests that might have been avoided and alienating the prickly regional nationalists, who in their own regions all have substantial support.

This is not to say that Spaniards see a clear alternative. Roughly half took the strike as an opportunity to register some measure of discontent. But that does not mean they think highly of Mr Rodriguez Zapatero as a potential prime minister. Many back Mr Aznar's tough stand on immigration and on ETA terrorism,

even though he has failed to stop the bombs and has enraged the mainstream, non-violent Basque nationalists by treating them as little better than apologists for ETA. A new law that would enable ETA's political wing, Batasuna, to be banned, is widely backed in the country, as it was in Parliament this week. If an election were called tomorrow, Mr Aznar would most probably win a third term.

But the next election is two years away and the economy could turn sour. For all his pooh-poohing of the strike, Mr Aznar has perhaps drawn a lesson: he has signalled that he is happy to talk about some aspects of his new labour law. Perhaps he should talk about other things too.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Another French affair

Spookgate

Jun 27th 2002 | PARIS
From The Economist print edition

The secret service dug up scandal on the president—and will suffer for it. Maybe

Get article background

HE WENT into the presidential election heavily tainted with rumours of financial scandal: personal, the alleged use of public money for a private holiday; political, the abuse (no novelty for either major party in France) of municipal office when he was mayor of Paris from 1977 to 1995, to raise party funds through kickbacks from contractors. And more. But faced with dreary Lionel Jospin and ugly Jean-Marie Le Pen, the voters barely gave a damn. Jacques Chirac was triumphantly re-elected. Now, says *Le Monde*, he is to take his revenge on some who, supposedly, helped to drag such scandals up.

No small fry either: if the paper is right, the bosses of the two main intelligence services, the DGSE espionage agency and the DST, for counter-espionage, are to get the chop. Their offence, it seems, is to have agreed to rake up muck that could have been thrown at the centre-right president by his Socialist opponent, Mr Jospin, prime minister till the election.

One alleged investigation refers back to when Mr Chirac was himself prime minister, from 1986 to 1988, “cohabiting” with the Socialist president, François Mitterrand. It has long been rumoured, and always officially denied, that Mr Chirac and his interior minister, Charles Pasqua, paid a ransom for the release of some French hostages in Lebanon; and, much worse, that part of the ransom was siphoned off to Mr Chirac's political party.

Another line of inquiry for the spooks supposedly concerned Mr Chirac's long love affair with Japan, and allegations that a now-disgraced Japanese banker provided him with financial support and, according to a Japanese magazine, “offered him the company of a starlet”. A third involved alleged financial help from Rafiq Hariri, a multimillionaire now, as for most of the 1990s, prime minister of Lebanon.

If *Le Monde*'s report is correct, one might think the spy chiefs will be getting what they deserve. The Socialists, smarting from their electoral rout, think otherwise: the whole tale, they say, is part of a plan to let the president mould the secret services to his liking (as French presidents tend to anyway). Yet the past two years have seen several events whose timing seemed choreographed to embarrass one political side or the other. A fugitive returned last year from the Philippines to discomfit the left in a scandal concerning Elf, a state oil company. Another came back this year from the Caribbean to revive the suspicions of political kickbacks in Mr Chirac's mayoral days.

Not that he need worry. A court had already ruled before his re-election that his office protected him from judicial questioning. One day no doubt he will retire, but cynics say that at some point in the next five years the overwhelmingly pro-Chirac parliament will produce an amnesty for political-financial offences of the kind alleged against him. There is, after all, a precedent: in 1989 a Socialist government brought in an amnesty covering the illegal raising of party funds. Mr Chirac led an opposition boycott of the vote.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Italian labour law and politics

Berlusconi 2, Cofferati 1

Jun 27th 2002 | ROME
From The Economist print edition

The government has divided trade-unionists over changes to the law

IT WAS a conspiracy, says Sergio Cofferati, boss of the CGIL, Italy's largest and most militant trade-union confederation. But the fact is that his two smaller rivals, the CISL and UIL, have agreed with the government and the employers on alterations of labour law. These will be limited in time and less radical than Silvio Berlusconi's ministers first planned. But agreed they were, and what, Mr Cofferati wonders, will come next?

AP

Cofferati defends democracy

The government had intended simply to scrap Article 18 of Italy's labour code, which requires employers with more than 15 workers to rehire (not simply compensate) any found to have been fired “without just cause”. Under the accord, the article will be suspended for a three-year trial period for small firms planning to expand above 15 employees.

Even that modest change is far too much for Mr Cofferati. He will resign as leader of the CGIL on July 8th—to pursue ambitions in left-wing politics, some think—giving way to Guglielmo Epifani, his deputy. But Mr Epifani is no more conciliatory. He denies that Article 18 fuels unemployment, as the government claims. Companies will not employ more people, he argues, merely hire and fire more often. For Mr Epifani this is a fight for dignity, and the CGIL has already called regional strikes, which will continue until July 11th. “We will call a general strike in September or October,” he says.

With the two other union bodies falling into line with the government and the centre-left a disunited rabble, Mr Cofferati has become the strongest voice opposing government policy. He worries about the labour split, already evident when the CGIL rejected the latest deal on metalworkers' pay. Still, with 5.4m members the CGIL can risk going alone.

His suspicion of “what next?” is justified. Maurizio Sacconi, a junior welfare minister, one of the architects of the proposed changes to Article 18, reckons this should be only a first step to fight the black economy and make the labour market more flexible. Within the European Union, only Italy, Austria and Portugal make employers reinstate workers found to have been unfairly sacked. And among EU countries Italy—officially at least—has the lowest proportion of working-age people actually at work,54.5%. But the black economy is booming as ever: according to the IMF about 27% of the country's GDP is produced by black labour.

The tug-of-war over Article 18 has become a virility test for the Berlusconi government, which has so far

not lived up to most of its bold electoral promises. The murder of one of its labour-law advisers in March encouraged some of the prime minister's dafter colleagues to link the unions with terrorism. The welfare minister, Roberto Maroni, has been trying to demonise the CGIL again. He called Mr Cofferati's attacks on the reform dangerous, and said he had received threatening letters and two bullets in an envelope since the CGIL leader's proclamations. On Wednesday the interior minister, Claudio Scajola, joined in the scaremongering. “Lies” and “mud-slinging at the defenders of democracy,” retorted the CGIL.

Where now? Mr Cofferati says he will go to the Constitutional Court to get the reform of Article 18 struck down. Presumably, in the event, Mr Epifani will be left with that baby: Mr Cofferati will be off—though whether, in the longer term, really to his old employer, Pirelli, as he says, or to the political future that some suspect he dreams of is yet to be seen. As to the court, Mr Berlusconi, no wild admirer of legal meddling with business, will not wait for its judgment; he hopes—improbably, given some last-minute hold-ups—to seal his pact with employers and the remaining trade-unionists on July 2nd.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY
About sponsorship

German labour-market reform

Here are the ideas. Now for action?

Jun 27th 2002 | BERLIN
From The Economist print edition

An official commission offers radical answers for unemployment and its cost

THE report of an official commission on labour-market reform? Switch back to the World Cup. But maybe not quite so fast in a country of 4m jobless, with a general election in September. As leaked, the proposals of the commission, headed by Peter Hartz, personnel director of Volkswagen, are simple, bold and potentially far-reaching. He claims they could halve Germany's unemployment within three years and slash the cost of unemployment benefits by two-thirds. They could also give Gerhard Schröder a last chance to prove his increasingly questioned credentials as a “reforming chancellor”. If he dares, that is.

The commission was set up in February, after the Federal Labour Office was found to be grossly exaggerating its own success. It claimed to find work for 60% of the jobless. The truth was barely 20%. Mr Hartz was told to come up with an “ambitious concept” to make the agency, with its *euro*54 billion ($52 billion) budget and 90,000 staff, more responsive to the needs of employers and jobless alike. Leaks suggest that, perhaps optimistically, he has taken the government at its word.

The heart of his proposals is one to turn the agency's 181 regional offices into de facto temporary-employment agencies. Anyone still jobless after six months would in effect be employed by them, and hired out short-term (though on union rates)—or have his benefits docked. Some 780,000 jobs could be created this way, the Hartz commission estimates.

It has taken the same carrot-and-stick approach in most of its ideas for tighter rules on benefits and swifter work placement. Germany pays out *euro*40 billion a year, around 2% of GDP, in unemployment benefits. Depending on the recipient's family status, he gets 60-67% of his former wage for up to 32 months, and 53-57% for an unlimited period thereafter. Thousands of Labour Office staff are tied up making these individual calculations. To free them for the more useful task of matching job-applicants to vacancies, the commission proposes a simple, cheaper system: flat-rate benefits to be paid at just three levels for six months and thereafter gradually scaled down until they reach the basic social-welfare level.

Another Gordian solution is put forward for the estimated *euro*330 billion of undeclared wages, which both cost the state lost revenues and may cost it benefits paid to the supposedly jobless earners as well: cut the reams of paperwork and let cleaners, odd-job men and the like set up as one-man companies, being allowed to earn *euro*20,000 a year taxed at just 10%, while still keeping most of their welfare benefits.

To speed up job placements (and thereby limit spending on benefits), the commission recommends that workers be required to inform their local employment office the moment they get their notice, not wait until they are laid off. Every jobless person should be prepared to accept a lower wage than before, or face a cut in benefits, and young, single ones should be expected to move anywhere in the country for work, or risk a similar cut.

None of this is before time. For all the 4m jobless, 1m vacancies remain unfilled. Two-thirds of employers complain they cannot get the staff they need. Germany has some of the highest industrial wages and non-wage labour costs, the toughest job protection and the least labour mobility in the industrial world. A third of the unemployed have been without a job for over a year; the average is 33 weeks. Yet no government has had the guts to push through the required structural reforms. Mr Schröder and his conservative rival, Edmund Stoiber, have both called vaguely for reform, but neither has said just what.

Commissions usually serve as a pretext for governments to do nothing. Will this one prove an exception? Mr Schröder—who some say was behind the leaks—has already said that he likes the “direction of the

overall concept”, though wanting “a number of details clarified”. Most other reaction so far has been as cautiously welcoming. Even Michael Sommer, the new boss of the DGB, the trade-union confederation, who at first damned the proposals as “unjust” and “counter-productive”, now describes them as a “chance for real progress in the labour market”.

The commission's report could provide the flagging Social Democrats with the campaign issue they have been searching for: unemployment is the voters' top concern. Hence Mr Stoiber's “the biggest bluff ever”—soon after his own economic guru, Lothar Späth, had called the commission's ideas “revolutionary”. But Mr Schröder is taking a risk. Many of the recommendations are potentially explosive; they could yet go off in his face.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Co-operation in ex-Yugoslavia

Little by little

Jun 27th 2002 | KOTOR
From The Economist print edition

Gradually, some recent foes are starting to work together

TEN years ago, the walled city of Dubrovnik, jewel of Croatia's Adriatic coast, was being shelled by Serb forces based across the hills in Trebinje and by ships from the harbours of nearby Montenegro. Though Dubrovnik's monuments suffered less than was at first feared, the townsfolk who cowered in basements still vividly remember their misery. Yet this month, local administrators from the regions of Dubrovnik, Trebinje—an ethnically Serb part of Bosnia—and the Montenegrin resort of Herceg-Novi, another pro-Serb stronghold, competed in assuring a seaborne conference on religion and ecology of their readiness to work with each other.

Western policymakers have been eager to weave together a network of cross-border ties that would make renewed conflict unthinkable. So are they happy? Up to a point. With some arm-twisting from Bosnia's foreign overlords, the three regions recently agreed that fire-fighting planes from Dubrovnik could swoop freely over the mountains; but a plan to enable border guards and local police to co-operate, and even to cross borders carrying guns, has been held up by Serb-Bosnian foot-dragging.

Even garbage is political: the Croats accuse the authorities of Trebinje of placing a tip too close to their territory. Officials in Herceg-Novi are angry with their counterparts in Konavle, a Croatian region near Dubrovnik, for raising charges for water that originates near Trebinje but flows through a Croat-nationalist heartland on its way to the coast. A fair price for servicing the pipes, say the Croats. Petty revenge for the war, say the hoteliers of Herceg-Novi.

Still, even in wartime, co-operation across frontiers and front lines never entirely ceased. Trebinje sent water to Dubrovnik, which provided electric power in return. And these days a handful of young people are venturing across borders to meet other youngsters whom they would have tried to kill if both had been born a few years earlier. There is hope yet.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Charlemagne

Poland's populist, Andrzej Lepper

Jun 27th 2002
From The Economist print edition

A challenge to the central bank—and a risk for EU enlargement

THE blockades were meant to bring Poland to a halt on Tuesday. They didn't. But Andrzej Lepper and his Self-Defence party are threatening months of countrywide direct action, until the free-marketeers running the central bank resign. And Mr Lepper wants more than that: a full-scale peasants' revolt.

With his quiff, puckered scowl and solarium tan, Mr Lepper, a farmer's leader elected to Parliament last year, used to be likened to Elvis Presley. These days the comparisons are more pointed. “Heil Lepper”, ran the cover of a weekly magazine recently, showing a sepia-tinted Mr Lepper in a Hitlerian pose, a shadow on his face suggesting the late *Fuhrer*'s toothbrush moustache. Their speeches were alike too, said the magazine. The message was clear: it was time to take Mr Lepper seriously.

Why? He rarely gets specific on policy. Press him and he talks of a third way between capitalism and socialism. He has spoken admiringly of Alexander Lukashenka, Belarus's strongman. His hate-figure is Leszek Balcerowicz, the monetary conservative who heads the central bank. In the early 1990s, Mr Balcerowicz, as finance minister, applied the economic shock therapy that pushed Poland further and faster towards market realities than many thought possible. Outsiders applauded. Many at the receiving end of the shocks did not; and still don't, with the bank's key lending rate—even after a series of cuts—at 8.5% but inflation now at only 2%. It was trade-unionists, not mainly Mr Lepper's followers, who massed to call for Mr Balcerowicz's head outside the bank before it debated its latest (small) cut this week.

But it is over Polish membership of the European Union that Mr Lepper can do most harm. He is not against it, he maintains; he just wants “a fair and equal partnership” with the EU. Translation: Polish farmers must get the same EU money as, say, German ones, from the start, not after the years of phasing-in that the EU has in mind. Which might indeed be fair but, since the EU will concede no such thing, his demand could wreck hopes of a yes vote in next year's Polish referendum on membership.

This week's blockades may have gone off at half-cock, but Mr Lepper is still riding a good deal higher than he was six months ago. His political career then looked finished. Foul-mouthed outbursts cost him his position as deputy speaker of the parliament. A series of court cases for slandering rival politicians beckoned. His claims that members of the Polish government were working with the Taliban to smuggle anthrax into the United States were plainly potty. Yet far from ruining him, Mr Lepper's excesses marked him off from the Warsaw establishment that he claims to despise. His support grew. Nearly 20% of Poles now back his party. Add in another 20% or so supporting two other far-right parties that got into Parliament last year—the League of Polish Families, and Law and Justice—and Polish democracy starts to look more than a little wobbly.

Mr Lepper, now 48, founded Self-Defence as a farmer's trade union a decade ago. From the start he resorted to emotive arguments and French-style direct action. Farmers faced with bank repossession—he was one—warded off the bailiff by going on hunger strike. That worked for a while. But when one bailiff went in anyway and was beaten senseless by Self-Defence supporters, Mr Lepper found himself with an 18-month prison sentence for inciting the violence. Characteristically, he managed to wriggle out of doing time, pleading that his wife was sick, and was put on probation instead to look after her. Uncowed, he took to more ambitious direct action. In the winter of 1998-99, angry farmers under his sway brought the country to a standstill for a month with roadblocks. The government threatened him, but caved in. Then last year the implosion of the centre-right and an economic downturn gave him an opening. He refashioned Self-Defence into a political party and hired an image consultant. Out went the grubby T-shirts that he and his friends liked to wear. In came blazers and striped red-and-white ties, now a trademark of his party. Its success in the election exceeded even his expectations: 10% of the vote and

53 seats, making it the third-biggest party. And he has done still better since.

Mr Lepper's political style remains simple: he is with the people. Where there is strife—a Szczecin shipyard, a Lublin car factory—he is there, journalists in tow. In a nation that values solidarity, this goes down well. His electorate has grown from those hurt by the fall of communism to include those who fear being hurt by EU membership: farmers, butchers and grocers, steelworkers and miners, car dealers, pensioners, the unemployed and destitute. Moscow stole from you; Warsaw is stealing from you; Brussels will steal from you, he tells them. And with nearly one-fifth of Poles out of work and many more struggling to get by, his vote has further room to grow. He is ever on the look-out for new allies: he won unlikely support among greens, for instance, with a blast at industrialised farming.

A warning for democrats

Mr Lepper has risen as Poland's centre-right has collapsed. The only party between the populist far right and the ex-communist Democratic Left now in power is Platform, a business-friendly party that has dismally failed to take its message beyond the small middle class. Conspiracists in Warsaw like to say that Mr Lepper was created by the Democratic Left as a way of weakening the Peasants' Party, its coalition partner. He is certainly useful to it: the government would love to retake control of the central bank, and his repeated attacks on Mr Balcerowicz make its case. The prime minister, Leszek Miller, claims to be unworried about Mr Lepper's effect on the EU referendum: faced with a real choice, he reckons, Poles will vote with their heads, not hearts. Still, in a new democracy, the ease with which Mr Lepper has cobbled together a constituency of the dispossessed is worrying. Hitler he isn't, but a warning of what can happen when voters feel politicians have failed them he should be.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Immigration

Who gains from immigration?

Jun 27th 2002
From The Economist print edition

Guardian

Immigrants, certainly; so do most Britons, but some lose out

ARE immigrants a burden or a blessing? Are they to be welcomed or sent home? If voters are confused about Labour's policy, it would not be surprising. Last weekend Tony Blair tried and failed to win the agreement of fellow European leaders at the Seville summit to his proposal that the EU use its "economic and financial clout" against countries failing to co-operate in the attempts to stop illegal immigration. On June 25th David Blunkett, the home secretary, met Nicolas Sarkozy, his French counterpart, to press the case for the early closure of the Sangatte refugee camp near Calais which is used by asylum-seekers as a staging-post to enter Britain. Unfortunately, Mr Sarkozy did not oblige. And on June 26th, Gordon Brown, the chancellor of the exchequer, told businessmen gathered at the Mansion House that he planned to increase the number of work permits issued to allow foreigners to work in Britain.

Politics and economics push the government in opposite directions. Politics argue for being seen to clamp down on immigrants. Britons are getting increasingly concerned about immigration. MORI's latest figures show that immigration now ranks second to the state of the health service, and ahead of law and order and schools. Ministers fear that, unless they defuse public disquiet about the issue, Britain could follow other European electorates and experience a political backlash against immigration.

But economics argue for encouraging immigration. Mr Blair told the House of Commons this week that legal immigration "can and does bring real and substantial benefits to countries, including Britain". So the government is trying to draw a clear line between legal immigration—to be encouraged—and illegal immigration—to be thwarted. It has streamlined the system of work permits, which allows people to come to Britain at the request of employers. This year, it has introduced a new programme to allow highly skilled foreigners to immigrate without the backing of employers. And the Home Office is currently consulting on further steps that will increase the flow of less skilled legal immigrants; for example, by expanding the seasonal agricultural workers programme and extending it beyond farming to activities like catering and construction.

But how big are the economic benefits of immigration, and who enjoys them? Clearly immigration makes the economy bigger by adding to the workforce. Because net migration (the balance of inward and outward flows) has recently been running at a record 180,000 a year, the potential effect could be quite large. The Treasury now assumes that there will be further net inflows approaching this level. On this basis it estimates that the economy can grow each year by an additional quarter of a percentage point—worth £2.5 billion ($3.8 billion)—until 2006. That handy

annual addition to GDP should also boost tax revenues by about £1 billion every year.

Businesses will also benefit from the expansion of the economy—one reason why the CBI, the employers' organisation, backs migration. The CBI, like the government, also supports immigration because it can help to fill specific labour shortages, such as, at present, the recruitment needs of the computer industry and the health service.

Government and business may benefit from a larger economy, but for individuals what matters is the effect on GDP per head. Immigration creates such benefits in a similar way to trade. Just as with trade, it creates opportunities for Britons to exploit their comparative advantage—which lies in the extent to which they differ from immigrants. As is the case in other developed countries, immigrants to Britain are different in two ways: they are both more and less skilled. This allows Britons to benefit by specialising in activities where they have the edge. And people can buy goods or services provided by immigrants because they are generally prepared to work at lower wages.

Where it hurts

The benefits immigration produces in this way are unlikely to be very large. The increase in GDP per head will be smaller than that in overall GDP. The annual rise in per capital GDP from projected higher immigration will probably be around an eighth of a percentage point.

Most economists agree there will be modest gains. “On the whole the economic impact of immigration is broadly neutral to mildly positive,” says John Salt of the migration research unit at University College London (UCL). “The net gains are very modest,” says Richard Freeman, co-director of the LSE's Centre for Economic Performance and a member of a National Research Council (NRC) panel that reported in 1997 on the impact of immigration into the United States. The main reason is that Britain is already a very open trading economy whose imports are worth almost 30% of GDP. This tempers the potential impact of immigration since imports, in effect, embody the work of foreigners who stay put.

Enthusiasts for immigration suggest that the potential gains are much larger. Nigel Harris, an economist at UCL who advocates the scrapping of all immigration controls, argues that there are no costs to British workers because “immigrants do jobs that domestic workers won't touch”. Immigrants may also be unusually entrepreneurial: they are, after all, self-selecting in their willingness to get up and go. This seems plausible, but is difficult to measure, as is the value that comes from the diversity that immigrants bring. “It's hard to put a number on buzz but there must be some value,” says Mr Freeman.

But while the population as a whole benefits slightly from immigration, those competing directly for jobs with immigrants do not. Most of the research on the impact of immigration on wages has been done in America. The NRC report concluded that, overall, immigration had reduced the wages of groups competing with immigrants—predominantly low-paid people—by 1-2%.

The people most affected by new immigrants were immigrants who had arrived earlier. Several studies have looked at local labour markets in America, comparing areas with high levels of new immigration to those with low levels, or looking at changes in wages over time. One such study, published in 1991, found that a 10% rise in the number of immigrants depressed the wages of earlier immigrants by 4%. To low-paid workers, that's a cost. To their employers, it's a benefit.

The government is right to insist that there are economic benefits to immigration, but they are not huge, or neutral. Broadly, immigration makes business and most people a bit better off, and some of the poor

poorer.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

London's skyline

Shame about the view

Jun 27th 2002
From The Economist print edition

The battle over the City's towers

LONDON is a great city with a dull skyline. Take a walk up Primrose Hill and see for yourself. It's not just the grimy 1960s tower blocks, dimly visible in small clumps from Shepherd's Bush all the way to Woolwich. Most of the buildings that pass for skyscrapers are duds too. Centrepoint, a grim grey headstone; the Park Lane Hilton, dreary even by cold-war standards; the British Telecom Tower, a gigantic ray-gun barrel that fell to earth. The sleek, flirtatiously winking spires of Canary Wharf, to the east, are shining exceptions.

Sightlines

London as it is—and as it might be with lots of proposed skyscrapers

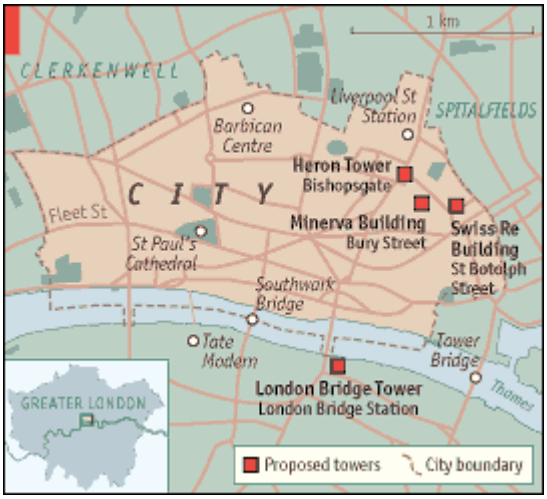
The current *bête noire* over which conservationists and developers are coming to blows is Heron Tower, a 37-storey, £290m ($436m) glass-and-steel confection which Gerald Ronson, a property magnate, wants to throw up in Bishopsgate, at the very heart of the City. In the red corner: London's mayor, Ken Livingstone, punching with the zeal of a pro-development convert, and Judith Mayhew, the head of the policy and resources committee of the Corporation of London, a no-nonsense Antipodean with a sharp tongue and gimlet eye. And in the blue corner: the genteel custodian of Britain's historic soul, Sir Neil Cossons, chairman of English Heritage.

Development-nuts such as Mr Livingstone and Ms Mayhew see projects like Heron Tower as exactly what's needed if London is to hang on to its status as the financial capital of Europe. Conservationists such as Sir Neil, well, perhaps they would rather not have to see them at all.

Last year the cases for and against Heron Tower were made at a six-week hearing. A report is now before the minister of state, Lord Rooker, whose ruling is expected shortly. A lot hangs on his decision—not just the shape of the skyline, but, potentially, the future of investment in the City and the willingness of developers to put forward ambitious proposals.

The Corporation of London, the City's governing body, insists that tall buildings are vital to the square mile's economic well-being; Ms Mayhew stakes its viability as a financial centre on

the outcome of the Heron inquiry. Tony Travers of the London School of Economics notes that other parts of town are managing perfectly well without skyscrapers—indeed, the highest rents in London are in the low-rise West End. What is important, however, is that most of the companies that want to set up shop in the City wish to do so in tall buildings. “Probably the most compelling evidence in favour of tall buildings is that developers are able consistently to fill their towers with tenants and command high premiums,” says Mr Travers.



Though English Heritage's London advisory group supported Heron Tower, the organisation's main committee remains staunchly opposed to it. English Heritage is not anti-development, but rather anti-bad development. “The historic environment of the City is a crucial part of its attraction for international business,” says Sir Neil. “Over the past 20 years a third of the whole city has been redeveloped and there is no reason why this process of renewal cannot continue in the future alongside the conservation of the best of the past.” At last year's inquiry, English Heritage argued that Heron Tower would have an adverse effect on views of St Paul's Cathedral. Its architects, Kohn Pedersen Fox, disagree, and point out that the building would not be located in one of London's protected “viewing corridors”.

Others worry that, if the Heron project goes ahead, more towers will bob up in its wake. No doubt they will—though London's transformation into Manhattan-on-Thames would still be a long way off. A few tall buildings are likely to go ahead in any case—Lord Foster's controversial Swiss Re building (“the erotic gherkin”) is already underway, for instance, while Sir Nicholas Grimshaw's Minerva Building and Renzo Piano's London Bridge Tower may also gain approval.

What if Lord Rooker returns a “no” verdict? The consequences may not be quite so apocalyptic as Ms Mayhew fears, but they would be serious enough. For one thing, developers would be less keen to court long, cripplingly expensive public inquiries by proposing the kind of bold, imaginative designs that are helping to reinvigorate London's skyline.

Chances are, though, that Heron Tower will get the thumbs-up. As Mr Travers points out, the government will want to come out as pro-growth, especially at a time when the direction the economy will take is uncertain. “The government knows that its success is tied to economic success, so there's a lot of pressure for a ‘yes' result,” he says. “A ‘no' would be interpreted as anti-business, anti-development.”

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Diet and crime

Keep taking the tablets

Jun 27th 2002
From The Economist print edition

Could food supplements keep Britons out of trouble?

“DOING porridge”—British slang for spending time behind bars—will never be the same if a group of academics in England and Ireland have their way. They have found that improving the diets of prisoners also reduces their tendency to behave badly.

Bernard Gesch, a researcher at Oxford University, wanted to see if bringing inmates' consumption of various vitamins, minerals and fatty acids (the stuff found in fish oil) up to recommended daily levels would affect their behaviour. These days prison canteens generally offer menus which meet national dietary standards, but prisoners often prefer the junk food they buy in the prison shop to the healthier stodge on their trays.

The study involved 231 18-to-21-year-old men in a maximum-security jail in Aylesbury. Half of the offenders received daily nutritional supplements, and the rest placebo pills. The two groups included a comparable mix of anxious, depressed and aggressive individuals. Their antisocial antics—ranging from violent assaults to swearing at the guards—were recorded before and during the experiment.

The results, published in the July issue of the *British Journal of Psychiatry*, are striking. Those on supplements committed 25% fewer offences than those taking placebos. Moreover, with at least two weeks' “treatment”, inmates receiving supplements committed 35% fewer offences than before starting the trial, compared with a 7% reduction in those taking placebos. The team reckons that a year's worth of micronutrient supplements would cost the prison service £3.5m, less than 0.2% of its current annual budget.

These results come as little surprise to Mr Gesch, a former probation officer. He has seen remarkable recoveries in juvenile delinquents whose diets have been adjusted to account for micronutrient deficiencies. This experience, and the success of the Aylesbury experiment, leads him to hope that a similar trial outside prison walls might have a salutary effect on crime in the community.

In the meantime, Mr Gesch and his team at Natural Justice, a charity interested in the social and physical causes of crime, want to expand their prison experiment to include more inmates and more sophisticated measures of which nutrients are having which effects. Researchers in America, whose jails are overflowing, are eager to participate, but experimenting on prisoners is ethically fraught, and so initiating such studies takes time.

One question scientists are keen to address is exactly how such tiny doses of nutrients achieve such big changes in behaviour. Joseph Hibbeln, at the National Institute of Alcohol Abuse and Alcoholism, points to omega-3 fatty acids as prime suspects. There is growing evidence that such fatty acids can lighten depression and reduce irritability in adults; in animal experiments, omega-3 fatty acids have been shown to raise brain levels of serotonin, a biochemical implicated in a variety of mood disorders. Pinning down these links will be key to changing behaviour. In crime control, feeding the mind may one day prove a useful adjunct to locking up the body.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Road safety

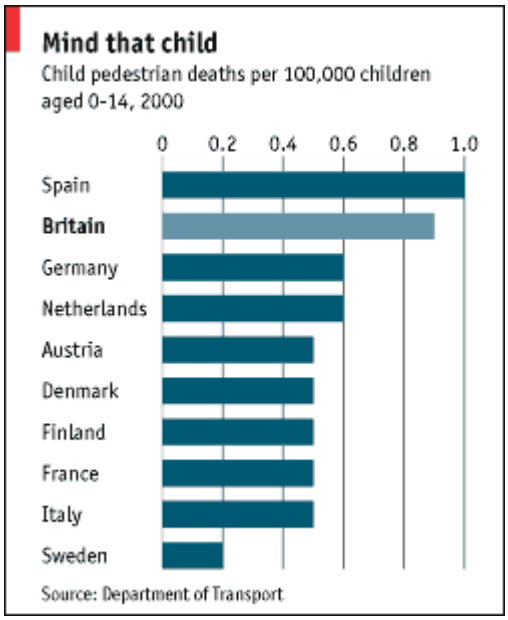
High on speed

Jun 27th 2002
From The Economist print edition

A curious contradiction in policy towards speeding drivers

FAILURE to enforce the law is something that Britons commonly condemn in less upstanding peoples; yet any attempt to enforce the speed limit causes national outrage. That explains the government's contradictory policy on speed cameras. It is at once encouraging their deployment around the country, and insisting that they should be made more visible and therefore less effective.

Most drivers in Britain routinely ignore speed limits. In urban areas 70% of cars exceed the 30mph limit, with more than 25% doing more than 40mph. The worst offenders are young males aged 17-24 and those in higher income groups, earning above £30,000 a year. Their victims are often children of school age. Road accidents are the biggest single killer of school-age children. Those who are most likely to be killed or seriously injured come from the poorest areas. The pedestrian death rate for children from families in the lowest social class is five times that for those in the highest social class.



Speed makes the difference between injury and death. Nine out of ten pedestrians are killed if they are hit by a car going at 40mph. At 20mph, nine out ten survive. The House of Commons transport select committee estimates that if motoring laws were properly enforced, the number of road deaths could be reduced from 3,500 a year to less than 1,000.

Speed limits, at present, are only haphazardly enforced. Motorists who speed know they are very unlikely to be caught. Speed cameras are a good way of catching speeding drivers, and also of deterring others. In a trial in eight areas two years ago, where police were allowed to recoup the cost of operating cameras from the fines levied on motorists, 47% fewer people were killed or seriously injured. The cost of the cameras was repaid fivefold within a year in accident reduction and savings in medical treatment. Ministers have now agreed that the police should be allowed to deploy them across the country, financing them with the money they earn from fines.

But cameras slow drivers down more effectively when motorists know they are around, but not precisely where. That is what motorists don't like, and why the government has decided they should be painted yellow. David Begg, chairman of the government-funded Commission for Integrated Transport describes this decision as “a nonsense”. The transport select committee has already condemned it as “unreasonable” and warned that “people will die” as a result. And, following a challenge from Transport 2000 and other environmental pressure groups, the decision is to be judicially reviewed.

Two years ago, Tony Blair backed a target of a 40% reduction in road deaths and serious injuries by 2010. The latest figures—not, perhaps, surprisingly given a series of recent decisions—show a small increase in deaths. The government has refused either to make it illegal for motorists to use mobile phones while driving or to follow the rest of Europe's lead in reducing the blood-alcohol limit for drivers from 80mg to 50mg. Appeasing motorists may win politicians some short-term popularity but, if accident figures continue to rise, won't do them any long-term good.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Football

England wins World Cup

Jun 27th 2002
From The Economist print edition

Good behaviour during the World Cup was down to policing, not the zeitgeist

Reuters

The new face of English football

THERE was something odd about England's fans at this year's World Cup: almost all behaved themselves. Of the tens of thousands who travelled to Japan and South Korea, just 14 were arrested. Of the four still in custody, three were caught trading counterfeit currency; the other threw a Brazil shirt on to a railway line and held up a bullet train for four minutes. No England supporter was detained on a public-order offence.

These extraordinary non-events have prompted much thoughtful comment. No longer, it seems, do patriotism and thuggery go hand in hand. No longer is the English flag, St George's cross, tainted by racism. The louts have somehow been civilised; the Football Association says it has finally cracked hooliganism.

But there may be more practical reasons for the peace. After the 2000 European championships were marred by repeated riots, new anti-hooligan regulations were passed. According to Mark Steels of the National Criminal Intelligence Service, 1,053 convicted or suspected hooligans in Britain are currently banned from travelling abroad to matches—ten times more than two years ago. Information about another 500 potential troublemakers was shared with the host countries; 56 were denied entry. Civil liberties groups say those measures are draconian; Mr Steels would like to see 2,500 banned by Euro 2004.

Luck may have played an even larger part. The cost of travel, and a poor supply of locals looking for a fight, may have persuaded many rowdies to stay away; so might footage of batallions of Japanese riot police gearing up for action. Things do not look so good on the home front. Mr Steels thinks domestic hooliganism has got worse over the past year. Last month, 900 fans wreaked havoc around Millwall's London ground; 50 police officers were injured.

Despite the lull this month, Mr Steels warns against assuming that Euro 2004 will be peaceful. The competition is being held in Portugal; sun, sea and cheap travel could be a potent brew. The next World Cup, to be held in Germany in 2006, may be an even bigger challenge: German fans are a particularly alluring prospect for British bruisers.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Education, skills and productivity

Jack of no trades

Jun 27th 2002
From The Economist print edition

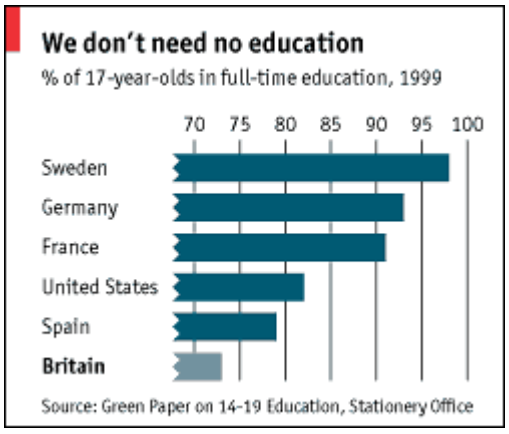
Britain needs to dock its educational tail if it wants to improve its productivity

IN his “Wealth of Nations”, Adam Smith complained that the “greater part of what is taught in schools and universities ...does not seem to be the most proper preparation” for “the business which is to employ [the students] for the remainder of their days.” Gordon Brown, the chancellor, made a similar gripe on June 26th, when, during his annual speech to the City, he once again pondered the depressingly low productivity of British workers.

On the face of it, the notion that Britain's productivity deficit—Stakhanovite American workers are around two-fifths more productive, French ones around 15% more—is attributable to lackadaisical education seems a little odd. British universities are churning out graduates as never before, in pursuit of the government's aim for 50% of 18-30 year olds to experience higher education by 2010. Recent improvements in primary schools should eventually translate into sterling (or euros).

It's what happens in between that should worry Mr Brown. That 50% target presumes that the economy of the future will require unprecedented numbers of graduates. But like the economy of the present, it will also require more workers with so-called “intermediate skills”. It is those sorts of workers, says Ruth Lea, head of policy at the Institute of Directors, who are in shortest supply: think, says Ms Lea anecdotally, of the difficulty of getting hold of a decent plumber in London.

The basic problem is that Britain's education system is much less successful at getting pupils to stay in school after the age of 16 than at enticing those who do stay to go to university. The staying-on rate improved in the late 1980s and early 1990s, but has since levelled off; other countries have made even bigger advances, with the result that Britain has one of the lowest proportions of 17-year-olds in education among industrialised countries (see chart). Many leave school with few or no qualifications: only around half as many British as German workers boast the equivalent to two A-levels.



For youngsters, and for the economy, the costs of dropping out are higher than ever, because—as in other countries, only more so—employment opportunities for the unskilled have shrunk. Around 9% of 16-18-year-olds are in neither education, work nor training—which helps to explain the incidence of juvenile crime, pregnancy and drug abuse. The causes of this malaise are less obvious than its consequences; but John Harwood, chief executive of the Learning and Skills Council (LSC)—a new quango that is responsible for post-16 learning in England (outside universities)—identifies two basic explanations: an anti-educational culture among some youngsters; and, on the other side, a failure to make learning seem relevant.

On the relevance side, the government is experimenting with an old-fashioned solution: bribery. Trial weekly payments for staying in school have yielded a 5% increase in participation rates. If the financial returns to staying in education were even more obvious, of course, the results would be even better.

Which is why, with its characteristic hyperactivity, the government is labouring to make vocational qualifications more appealing to both students and (just as important) employers. Some of its initiatives have tried to emulate successes elsewhere in Europe, and rectify past British mistakes. New vocational GCSEs are designed to maintain the attention of potential drop-outs from an earlier age. The LSC's local

satellites are supposed to ensure that the skills being inculcated are actually those local businesses value. By 2004, the government wants 28% of young people to enter its revamped apprenticeship scheme by the age of 22—fewer than become apprentices in Germany, but at least apprenticeship has been revived, after a long period of quiescence.

Dispelling the widespread disdain for vocational education is a noble aim; but the government's strategy—which is essentially to erase the distinction between the vocational and the academic—may be wrong-headed. Employers are concerned that supposedly vocational subjects are becoming insufficiently practical; and too much theory may end up diluting their appeal to the un-bookish students who are supposed to study them.

And Mr Brown still faces a more fundamental failing. Around 20% of Britain's adult population is functionally illiterate; despite advances in primary schools, the proportion of children that leave them beneath the expected literacy level is also around 20%. So after reading Adam Smith, the chancellor ought to peruse the various educational reports commissioned in the 19th century to find out why German workers, in particular, were so much better educated than British ones. In 1868, one of them pointed out that even if technical schools “were generally established among us, there is reason to fear that they would fail to produce any valuable results for want...of sound elementary knowledge of the learners.”

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com PEOPLE
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Bagehot

Livingstone the loner

Jun 27th 2002
From The Economist print edition

London's mayor needs a little help from his friends. The trouble is he doesn't have any

Get article background

IF YOU ask a silly question, don't be too surprised when you get a silly answer. That's exactly what happened when, a little over two years ago, Londoners made Ken Livingstone their first directly elected mayor.

The question became a silly one because, for all Tony Blair's initial enthusiasm for giving London an executive mayor with clout and money, London's mayor ended up with little of either. The job came with some of the superficial trappings of an American city boss. But, reluctant to wrest ancient powers from either Parliament or London's boroughs, the government ensured the new mayor, whoever it turned out to be, would be tightly constrained.

With nothing much at stake, nearly half of the few Londoners who could be bothered to turn up gave their silly answer, voting for the political artiste formerly known as Red Ken. Electing Mr Livingstone, who had been expelled from the Labour Party for committing the cardinal sin of running against its official candidate, the hapless Frank Dobson, seemed at the time like a bit of a wheeze—a minor and costless act of rebellion against New Labour's control freaks. Costless? Actually, no.

Over the last few days, Mr Livingstone has hogged the headlines to an extent that is rare even for one of the most relentless publicity-seekers in British politics. One set of headlines was of the kind that any ambitious mayor would crave, saluting Mr Livingstone's vision as he took the wraps off a long-awaited plan to bring some strategic direction to London's development over the next 15-20 years. In 419 pages, Mr Livingstone depicted the pressures facing the capital from the expected influx of more than half a million new workers in terms of housing, jobs and transport. Underpinning his vision of an economically thriving, but “greener, accessible and compact city” was the need for £100 billion ($153 billion) of mixed private and public investment.

The other story about Mr Livingstone concerned events alleged to have taken place at a party in Islington a few weeks ago when the mayor was said to have been involved in a drunken fight after a friend of Mr Livingstone's pregnant girlfriend thought the mayor was abusing her. In the course of a scuffle, Mr Livingstone's assailant was injured. Mr Livingstone left the scene before the arrival of the police and is accused of subsequently soliciting the help of his personal staff in trying to refute the report, which had first appeared (across four pages) in the *Evening Standard*, London's main newspaper.

On June 26th, Mr Livingstone appeared before London's “parliament” (the London Assembly) to give his version of what had happened and to face interrogation from its 25 members. Although his statement was just about believable, even on his own account, he seems to have behaved oddly, falling asleep at the party for three hours and then waking up to start a row with his partner because he thought that she had been smoking. There remains the possibility that he will be investigated by a new body set up to supervise behaviour in local government which has powers to suspend or ban him from office.

At first sight, it would be hard to imagine two stories that have less in common. There is, however, a connection: it is that when he needs them, the mayor has no allies.

Mr Livingstone's plan may have many excellent things in it. Most people who live in London, suffering the daily misery of rotten public transport, would welcome the new rail links he proposes and there is growing concern that soaring property prices are making it impossible for key public service workers to

live a reasonable distance from their jobs. It is also sensible to concentrate London's expansion in the neglected east. Sadly, it is mostly fantasy.

One is one and all alone

To many Londoners, Ken's a bit of a card—funny, unpompous and plain-speaking. Unfortunately, he is also happens to be one of the most friendless, least trusted politicians on the planet—a maverick egotist who is incapable of forming the basic political relationships without which any form of worthwhile action is almost impossible. The fact that he is loathed by Tony Blair, more loathed by Gordon Brown and even more loathed by John Prescott—when they look at him, they see the very embodiment of the reasons that Labour was out of power for 18 years—has practical consequences. The idea of helping Mr Livingstone in any way at all causes them physical pain. Given the Mexican stand-off over the future of the London Underground, why should anyone think Mr Livingstone will get billions for other transport projects?

With poisonous relations between the mayor and the London boroughs, many now run by model Blairites, the chances of large numbers of locally unpopular high-density residential schemes (crucial if “planning gain” is to deliver the high proportion of social housing that Mr Livingstone wants) getting the go-ahead are slim. It is true that Mr Livingstone has forged some links with the private sector since becoming mayor, but developers are now reeling at his proposal that a third to a half of what they build must be earmarked for low-paid workers. That impost will leave many otherwise viable developments unbuilt.

Did Mr Livingstone ever have a chance to do anything grand for London? Maybe, if he had been able to leverage his limited powers by building alliances and creating networks of influence. Such political skills would have helped him both to realise his vision for the capital and to extricate himself from his current difficulty. Sadly, they are alien to him. A more normal politician could have expected help during this personal crisis from members of his own party in the assembly. But the mayor, having never disguised his contempt for them, can hope for little from that quarter. He should survive this embarrassment, but he will be even lonelier, so even weaker, than before.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Present at the creation

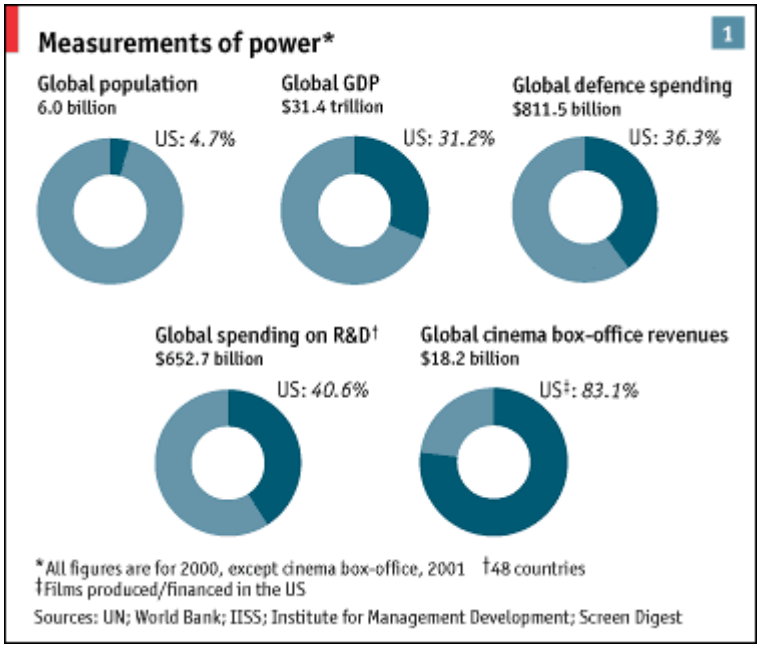
Jun 27th 2002
From The Economist print edition

For the first time at least since 1989, but arguably since 1945, America has both the chance and the motivation to reshape the world, writes Bill Emmott, the editor of *The Economist*

WHEN Dean Acheson, Harry Truman's post-war secretary of state, wrote his autobiography, he chose a grandiloquent title to describe his dozen years in government. He had been “Present at the Creation”, he said, by which he meant the building by America of a new world, out of the wartime rubble of the old—or, at any rate, of half a new world, the free half, while an ally turned enemy, the Soviet Union, built the other half. He was in turn quoting a 13th-century Spanish king, Alfonso X, who apparently said with equal immodesty: “Had I been present at the creation, I would have given some useful hints for the better ordering of the universe.”

Today, two further lots of rubble are again inviting America to try to reshape the world: that left by the terrorist atrocities in New York, Washington and Pennsylvania on September 11th 2001, but also an older one not yet properly built upon, that left by the fall of the Berlin wall on November 9th 1989. Once more, we may be present at a time of creation, a time for useful hints, a time if not of order then of new responses to the world's habitual disorder.

That is, again, a rather grandiloquent way to describe things. This first decade of the 21st century is not the same as Acheson's period in the middle of the 20th, when Germany and Japan lay defeated and much of Europe and Asia devastated, and when the slate of international arrangements could readily be cleaned to make way for a new lot. America again leads the world in all dimensions of power—military, economic, cultural, scientific (see chart 1)—by a margin out of all proportion to its population. But the world's slate is neither clean nor readily wiped, the uses and users of power have become more complex and varied, and America is itself led by an inexperienced, sometimes jejune president, bent on a narrower (if still daunting) task than was the also-inexperienced President Truman, that of fighting a “war on terrorism”.



Moreover, the officials led by George Bush, seasoned though many of the senior ones are, have not yet inspired confidence that they know what broader set of policies they wish to follow, let alone how they might seek to reshape the world. They have defined their war as one of good against evil, of civilisation against terror, but have then butted their heads against the blood-stained brick wall that is the Israeli-Palestinian conflict. They have spoken about a “regime change” in Iraq, but have done little about it. They have said they favour democracy, but then hesitated to condemn an attempted coup in April against Venezuela's President Hugo Chavez. They have said they favour free trade, but then slapped tariffs on steel imports and subsidies on farming. They have rubbished foreign aid, then embraced it; supported a bankruptcy procedure for countries in financial crisis, then opposed it.

Such behaviour may in time come to show that this administration is inept; or, just as likely, it may come to be irrelevant, for all administrations zig, zag and stumble from time to time. There is, to be sure, no blueprint currently on White House desks for changing the world. But it ought not to be forgotten that even before the terrorist attacks, President Bush had set in train a project—the development of a national missile-defence system—that promises over the next decade or more entirely to alter the way in which the world handles its nuclear arsenals and deters their use. It is possible to argue—and plenty do—over whether this system will ever work. But given America's money and technological record, it would be unwise to bet heavily against it. And on the way to making it work, the effort is likely to change relations between America and the other big nuclear powers, among many others.

Furthermore, two immediate things make change a likelier outcome than stasis. One is that the attacks on September 11th, and the fear of more in future on an even more devastating scale, have given the United States a powerful new motive for global activism, while persuading most other countries, whatever their snarls of criticism or resentment, not to stand in its way—at least for the time being. The second is that the actions implied by that motive are likely then to draw America into new acts and new types of engagement, whether it likes it or not. Even if a blueprint were to exist, it would soon be obsolete.

With hindsight, both the tasks and the opportunities that lay before Presidents Roosevelt, Truman and Eisenhower in 1945-55 look fairly clear. But they didn't at the time. Acheson wrote that “only slowly did it dawn upon us” that the 19th-century world structure had gone, and that the struggle to replace it would henceforth be directed from Washington and Moscow. At first, even the need for post-war relief and rehabilitation was under-rated, having been seen “almost as capable of being met by semi-private charity”. It took three years before America developed the Marshall plan to help revive Western Europe's economy, along with other efforts at overseas aid.

An expanding agenda

In today's very different context, a similar evolution is likely to take place. The challenge, as it was defined in the days and weeks following September 11th, is bound to change but also probably to grow. What began as a fight against the perpetrators of those attacks, a task that already looked large given

their wide dispersal and insidious nature, has rightly been broadened further to include rogue states developing weapons of mass destruction. Thanks to happy victories in Afghanistan, it has come to take in the stabilising of that unhappy country to ensure it does not again play host to terrorists and—even more important—that it does not destabilise its nuclear-armed neighbour, Pakistan, itself repeatedly on the brink of war with India. And there is the associated task of discouraging violent militancy in other countries in Central Asia.

All that is before even mentioning the Arab world, the terrorists' main origin, in which Israel and Palestine provide their bloody complication, and in which the desired “regime change” in Iraq will require America to set to work on helping a new regime to emerge, an effort that may then put pressure on other Arab countries to alter their ways, too. An old taboo, on “nation-building” abroad, will have to be put aside. Then there is the decidedly unsmall business of handling the often prickly relationships with bigger powers such as Russia, China, India, Japan and the European allies, whose interests will be affected, for better and worse, by all this activism. As these tasks lead to others, and as unforeseen consequences occur, the magnitude of what is being attempted is likely slowly to dawn upon Acheson's successors.

Will they succeed? Just as after 1945, the honest answer is: only partially. But there are good grounds for optimism, founded in the nature and origins of the change that is occurring.

For the world did not change all at once on September 11th last year. Rather, the world had gradually been changing since at least 1989 thanks to the demise of communism. Mainly, the changes were for the better: the end to ideological superpower conflict; a vastly increased number of countries wishing to adopt liberal trading rules to join the market economy, and thus aligning their interests mainly with those of the West; technological innovation that made it easier for ideas to flow across borders; a big rise in the number of countries choosing and regulating their governments by means of democracy.

But, in three respects, it had also been changing for the worse: a number of deadbeat countries were falling into war and civil strife when cold-war restraints and props had been removed; technological change was threatening to put new destructive and organisational power in the hands of trouble-makers; and a new sort of trouble-maker—the messianic terrorist—was gathering recruits and strength. The dramatic manifestation of such terrorism on September 11th then brought about a sudden change in America itself. A sudden change in America means a sudden change in the world. A country that had gradually become loth to get involved in foreign entanglements, in the famous terms of George Washington's farewell address, gained a new determination and sense of purpose.

The reluctant sheriff no longer

It was not that it had been idle during the 1990s, nor isolationist. It mobilised 500,000 troops for the Gulf war in 1991. At the end of the decade, it led—in effect, conducted—NATO's war with Serbia over Kosovo. During those ten years, American military interventions overseas were more numerous, if on a smaller scale, than during the whole four decades of the cold war. Its gung-ho economy, which reversed two decades of anguish and under-performance, boosted American self-confidence. In other areas too—trade rules, financial crises, human rights, war crimes, mediation—America played an active international role. But it did so hesitantly, against a backdrop of declining domestic interest in foreign affairs (a decline shared in Europe). It acted by improvisation, with no clear sense of purpose or coherent strategy, and a rather short attention span.

That is what has now changed. There may not yet be a coherent strategy, but there is certainly a clear sense of purpose. There is bipartisan unity on the main elements of foreign policy, which was absent even for the Gulf war. Opinion polls reveal considerable public backing for activism abroad. Few voices can be heard calling for America to withdraw or do less. As long as the sense of threat endures, attention is unlikely to wander. In 1997 Richard Haass, then a think-tanker at the Brookings Institution, wrote a book that called America “The Reluctant Sheriff”. Now the director of policy planning at the State Department and considered moderate by the standards of the Bush administration, Mr Haass says that if he were writing the book now he would delete the word “reluctant”.

Another word, once considered rather daring, is becoming commonplace in policy seminars and on talk-shows: empire. By last September Andrew Bacevich, a military man turned professor of international relations at Boston University, had completed the first draft of a book on America's world role, with a provisional title of “Indispensable Nation”. Now it is to be called “American Empire” (and will be published this autumn by Harvard University Press). Though Mr Bacevich and others talk of American military commanders as “pro-consuls”, no one has in mind colonies or an emperor. But there is a strong, sometimes hubristic, sense that America has the opportunities, obligations and threats associated in the past with empires: that it can set the rules that govern international relations, while at times operating outside them itself; but also that ultimately it alone can enforce those rules, a role which makes it the prime target of anyone who dislikes them.

How much is too much?

After a decade of urging America to do more abroad, plenty of outsiders now worry that this sole superpower may soon do too much. During the 1990s there was much enthusiasm for the idea that, contrary to the United Nations Charter of 1945, countries should intervene in others' affairs, preferably collectively through the UN, when they thought that some other country was doing terrible things to its people. Such beastly behaviour would mean, said solemn international commissions, that the normal rights of sovereignty could be waived. Now America is developing a similar argument for its own pre-emptive intervention in cases such as Iraq, where it suspects a dictator of planning to develop weapons of mass destruction. “Foul!”, “Arrogant!”, “Illegal!”, comes back the international cry.

As well as seeking new rights, though, America is also refreshing some of its sense of obligation. The best example is the changing of mind on a topic once taken to epitomise foreign-policy fecklessness: development aid. In March at a United Nations summit in Monterrey, Mexico, President Bush startled delegates by announcing a 50% increase in America's $10 billion annual aid budget by 2006.

That is a big rise from a small base (it is less than half the European Union's combined aid budget, which at almost 0.4% of GDP by 2006 will remain proportionately three times more generous), but it came with other symbolism that made it feel more like a new beginning than a gesture: a rock star turned aid lobbyist, Bono, was by Mr Bush's side and also persuaded one of the hardest men of the right, Senator Jesse Helms, to back a special fund to help ease HIV/AIDS in Africa; and the general aid will be tied to conditions requiring good governmental behaviour in the recipient countries. If properly implemented, those conditions will represent a fresh form of interference in other people's business, but could also give development aid a new credibility.

Mr Bush does not believe that aid is needed because poverty causes terrorism. The September 11th terrorists were not poor, and most did not even come from poor countries. What the change of mind on aid implies, though, if it is indeed more than just window-dressing, is a strengthened belief that it is in America's long-term national interest to help more countries to take part in the process of international trade, investment and technology transfer that is popularly known as globalisation, and that to do so they need accountable, stable and legitimate governments. Mr Haass, in a speech to the Foreign Policy Association in New York in April, described this as an emerging doctrine of “integration”.

That process, and all the social and economic changes it brings, may actually be part of what the terrorists were enraged by, so reinforcing it would be more a gesture of defiance than of accommodation. In the shorter term, the same instinct has led President Bush to call for “a new Marshall plan” for the reconstruction of Afghanistan, though he has so far been short on specifics about what should be done and who should pay. He has also, however, recently been decidedly anti-integrationist in his trade policies, applying those steel tariffs and signing into law a lavish new farm-subsidy bill. Openness on trade, which includes the leadership of the new worldwide round of liberalisation that was promised in Doha last November, is costlier for domestic lobbies than is aid. Those measures were lamentable, but not irreversible. Leadership on trade is still to be hoped for, and pressed for.

Put like that, it sounds obvious. By promoting integration and acting as sheriff, the United States of America could do a lot of good in the world in the next few years. But since it would be doing so not just by handing out bags of money but by exerting and even extending its power, pressing or forcing people to change their ways, the very idea makes a lot of people uncomfortable. Might there be a backlash against a bossy, unilateralist America?

Hail to the integrator-in-chief?

It is a truism, of course, that if America does bad things or makes bad mistakes, others will criticise it, shun it or even oppose it. It is best, however, to think about this emerging issue of American power and leadership in three ways:

• America's power relative to its rivals' and to other alternatives, including its allies.

• America's power relative to the challenges it faces around the world, and what it might achieve by using it.

• America's power relative to its own willingness to use it, or to keep bearing the costs of maintaining and using it.

This survey will explore those topics, and the questions they raise. Its answers—be warned—will be optimistic, and will generally be favourable to the United States. Certainly, American leadership will produce mistakes. But without American leadership, worse things would happen. And if any other country were in the lead, there would be much greater cause for worry.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

The acceptability of American power

Jun 27th 2002
From The Economist print edition

American primacy will continue to be welcomed by many, and tolerated by others, even if through gritted teeth

“YOU can always rely on America to do the right thing,” quipped Winston Churchill, one of America's greatest 20th-century fans. “Once it has exhausted the alternatives.” That quotation contains both the main components of what remains a typical European view of American foreign policy.

It contains admiration, founded on the experience that when America intervened in Europe's two great wars of the 20th century it did so on the right side, with the right values and with ultimate success. But it also contains a superiority complex, a view of Americans as bumblers or global ignoramuses. Given that Churchill presided over the handing to America in 1941-45 of what little world leadership Britain then retained, he could be forgiven for posing as teacher to America's pupil. Yet the syndrome has endured and even widened, half a century later.

Today's critics, and they are numerous even among its allies, tend to sneer that American activism is reviving only because the United States now itself feels under threat. It is, they say, a selfish, or at least self-centred, reaction to injury rather than a new internationalism; it is being led by an administration that rejoices in rejecting or abrogating international treaties, acting unilaterally rather than in multilateral concert with others; and they say that helpful activism will soon descend into adventurism. Moreover, in its use of military power, America seeks to make others—even its allies—take casualties rather than lose its own troops; and America's leaders are “simplistic” and “absolutist”.

These criticisms are three-quarters true, but they are far from devastating. Indeed, they may even be taken as compliments. In a democracy as open and cacophonous as America's, and with a constitution expressly designed to thwart decisive action by any single branch of government, it is hard to persuade a majority to support costly and risky international activism. Self-centredness is not only natural but legally required. There has, admittedly, long been a deep seam of morality running through American policy, epitomised by Woodrow Wilson's “Fourteen Points” in 1918 and repeated in President Bush's “non-negotiable demands” on other nations in his state-of-the-union address in January this year. But idealism has rarely been enough to bring about timely or sustained action overseas; even Hitler's fascism required Pearl Harbour before Franklin Roosevelt dared enter the second world war overtly.

More will be said in a later section about treaties and their abrogation; there is right on both sides in different cases, and America's constitution queers the pitch by placing domestic law and Congress above all such international obligations. But on the Bush administration's side is the pragmatic argument that treaties are an inter-governmental means to an end, not an end in themselves; if, as with deals intended to counter the spread of nuclear, chemical and biological weapons, the treaties are being flouted (eg, by Iraq), someone has to provide the leadership to ensure that crucial treaties such as these are enforced.

The reluctance to take casualties reflects two things, one good, the other less so. The good cause is democracy itself, which in America makes politicians keen to preserve their citizens' lives and in Europe

makes them want to spend as little as possible on defence. Even during the second world war, when nearly 300,000 American lives were lost, it can be argued that America won by using millions of Russian soldiers as its proxies against Hitler, rather as it recently used the Northern Alliance in Afghanistan. Still, given that America has 725 military installations outside its own territory, of which 17 are fully fledged bases, and that of its 1.4m active servicemen 250,000 are deployed overseas, it cannot really be accused of hiding in a continental shell.

The less good cause is the fear of failure that has, since Vietnam, led American generals and politicians to withdraw quickly from military trouble overseas, even when (as in Somalia in 1993) opinion polls support continued engagement. In the 1990s that tendency made the United States look weak and malleable despite its military prowess, and may well have encouraged Osama bin Laden in his attacks.

And simplistic, absolutist? That is how Chris Patten, the European Union's commissioner for external relations, described President Bush's “axis of evil” speech, just as legions of European critics lambasted Ronald Reagan's description of the Soviet Union as “an evil empire” in the early 1980s. It is the reverse of the criticism that America acts in its well-calculated self-interest, for both these presidents were using moral language to rally support and clarify their intentions, to foes as well as friends. Such clarity always comes at the price of simplicity, but the real question is whether it is backed by credibility. Before September 11th, it would not have been. The trouble with European sophistication is that it has been backed by virtually nothing, either before or since that date.

President Bush's moral tone has strength because it is now backed by popular democratic support in the face of fear, and by the credible threat of military force. It is not quite clear that Americans will “bear any burden, pay any price” for liberty and security, as President Kennedy urged in 1961, but it is clear that neither politicians nor generals will now withdraw at the first whiff of failure. If anything, the danger is the opposite: that, as in Vietnam, the need to succeed abroad could in some cases blind them to an emerging reality in which success is unattainable.

Whose side would you rather be on?

The gripes are global. Japanese and Chinese have queued up to buy books that advocate “saying no” to the bossy Americans. Russians have talked approvingly of partnerships with China, India or others to balance the sole superpower. Europeans—and not just the French—have said they must be united in order to provide a counterweight to the United States. Appalling numbers of European pundits, including British ones, alas, argued that although September 11th was dreadful, it was the inevitable result of American policies. And of course there is Iran, to which the United States is always the Great Satan.

The question, though, is what weight to give to such sniping. If you were to take it literally, you might worry, along with quite a few international-relations theorists, that today's American dominance will lead inexorably to global or local alliances against it. American power is not a solution, but a problem in itself. The world, on this view, demands some sort of balance and so, in time, one will form as others gang up against the arrogant hegemon. Or you might worry that a resented America will increasingly have to act alone, as it did in Vietnam, and that it will again be weakened or disheartened when it fails. And then the world will become more dangerous.

Of these, the second is much the bigger risk. To see why, look first at what other countries do rather than what their people say. There is no doubt that America's military lead is huge, and that its economic and technological lead is also large. Table 2, updated from a 1999 article in *International Security* by William Wohlforth of Georgetown University, shows how America's lead over others on pure economic and military measures is far larger than that held by Britain in 1870, and the lead on military measures is larger than America itself held in 1950.

A dominance unparalleled

2

GDP (PPP) and defence spending, as % of "hegemon" country (hegemon=*100*)

GDP

	US	Britain	Russia	Japan	Germany	France	China
1870	**108**	*100*	90	na	46	75	na
1950	***100***	24	35	11	15	15	na
1985	***100***	17	39	38	21	18	46
1997	***100***	15	9	38	22	16	53
2000	***100***	15	13	35	21	15	52

Defence spending

	US	Britain	Russia	Japan	Germany	France	China
1872	**68**	*100*	120	na	65	113	na
1950	***100***	16	107	na	na	10	na
1985	***100***	10	109	5	8	8	10
1996	***100***	13	26	17	14	17	13
2000	***100***	11	20	15	10	12	14

Sources: 'The Stability of a Unipolar World' by William Wohlforth, *International Security*, 1999; *The Economist*

The military gap, in particular, has been getting larger since 1989, and continues to do so. As chart 3 shows, until recently America was cutting its defence spending in real terms. Others, though, were also cutting theirs rapidly. Even China has hardly been narrowing the gap. And, in terms of effectiveness, the gaps are wider still thanks to America's technological lead and professional armed forces. America's European and Japanese allies have not been trying to narrow it; both have sought at times to retain some independence, by developing their own hardware or satellite systems, but not actually to compete with the superpower.

This is not what you would expect if the ganging-up theory held true. America's power should lead others to spend more, not less. Some countries are, indeed, spending more, but for fear of each other, not of America: India and Pakistan have raced each other on arms, and many countries in East Asia have been bolstering their defences. Most, though, have been—and still are—responding to America's military lead by shrugging their shoulders and cutting or freezing their budgets. To Europeans, and still more to Russians, it is all a trifle embarrassing; hence the European talk about a unified defence force alongside NATO, but not, so far, any extra money. *Tant pis*, they seem to say: America is not a threat, so why bother to counter it?

It is rather better, in fact, to be on America's side. And that is where, for all the gripes, more and more countries are finding themselves. Even the balance-of-power theorists recognise this tendency of "bandwagoning". In regions where there is a prospect that one country might come to dominate, the incentive to ally with America is even stronger: hence the enthusiasm in East Asia for American participation, rather than have China or Japan take the lead. When America was ignoring Afghanistan, Pakistan took the Taliban's side; as soon as America returned, Pakistan jumped into its camp. Despite concern over a future attack on Iraq, criticism of America still centres more often on its failures to act or participate than on the threat it, or its adventures, pose to others.

Ganging up is likelier, as well as already more common, in economic matters. America has the world's biggest economy and is the biggest trader, but it is matched by the similarly sized European Union, which speaks with one voice on trade policy, and by the second-biggest national economy, Japan. It cannot automatically get its way in the running of the World Bank and the International Monetary Fund, despite being their biggest shareholder; it has voluntarily (if grudgingly) pooled its sovereignty in the World Trade Organisation; and other countries have happily ignored its objections to international environmental deals or judicial arrangements and gone ahead to set them up themselves (even if the United States then remains outside them).

Such issues are instructive, however. Although ganging up on America is in principle likelier in trade and finance, and does occasionally happen, the prospects for it are limited by one big thing: that if you favour freer trade, or readier access to finance, America is generally the main proponent of both. And many more countries have, in the past dozen years, opted to join the American-led system of liberal trade and capital flows. Where America favours selfish protectionism, notably for agriculture, steel and textiles, the Europeans have favoured it too. A lack of American leadership on trade liberalisation might set back that cause considerably, but it would not bring about anti-American alliances.

Benign selfishness

For sure, the United States is, by its very nature, a selfish superpower. Its sheer power allows it to override objections from others and sometimes to be careless, since it knows—or thinks—it will be able to sort messes out later. Its immigrants went there to better themselves, to escape worse conditions elsewhere, to leave the world rather than lead it. Its constitution is designed to prevent not only strong government but also any interference from outside. When morality and idealism do start to take over the language of foreign policy, they are generally balanced by a more pragmatic search for the national interest, thanks to the discipline of democracy. Wilsonian morality has long tussled with the realpolitik of Theodore Roosevelt and Henry Kissinger, and does so even in the words and deeds of George Bush.

Yet America's national interest is special, and not only to starry American eyes. It offers the closest match there is to a world interest. The desire for unimpeded trade, the rule of law, safety and security, the protection of property and the free movement of people and capital match world needs, not just American ones. Only when captured by the sectional interests of particular business, ethnic or religious groups do those American interests conflict with wider ones, as was recently shown by the steel tariffs, and has also been the case with some environmental laws, including the Kyoto deal. But as long as most American selfishness remains of the benign sort, it is unlikely to be opposed on a large scale, by coalitions of countries.

This does not, and never will, eliminate the niggles and the sniping from within America's growing band of allies, for pride is concerned as well as commercial interests, and the general match between American interests and the world's does conceal many specific frictions. But it limits the sniping's importance.

Even if they do not confront it, however, disgruntled allies can react to American actions in two other unhelpful ways. They can sit on their hands and leave America to get on with things, knowing that in a turbulent world there are limits to what even a superpower can achieve on its own. Alternatively, they can make life even harder for America by accepting its leadership but also surreptitiously selling trouble-makers the wherewithal to cause more trouble, such as missile technology or nuclear materials, or merely doing investment deals with the pariahs. That is what France, China and Russia have been doing, to different degrees, in recent years, in particular in Iraq. Yet America now has the chance to turn at least one of those countries into a far more co-operative ally and perhaps—just perhaps—to open a new chapter in worldwide efforts to contain the spread of weapons of mass destruction.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

New friends, new opportunities

Jun 27th 2002
From The Economist print edition

A grand new partnership with Russia could make the task of controlling weapons proliferation easier

"OUT of these troubled times", said the President Bush who was in office in 1990, "a new world order can emerge. A new era—freer from the threat of terror, stronger in the pursuit of justice and more secure in the quest for peace." Those words, intended as a rallying call for the Gulf war, were poorly chosen for anything beyond that immediate cause. The world since then has been as disorderly as ever. Yet the elder Bush's much-derided phrases did contain elements of truth.

It has taken more than a decade for those elements to emerge into the sunlight, and even now there are plenty of shadows. The first President Bush was hoping that the former communist countries of Russia and its satellites would become democracies and market economies, allies rather than enemies, with most interests shared with the West rather than in opposition to it. The reflexive vetoing of each other's moves in the UN Security Council would cease, and perhaps be replaced by co-operation. With the two superpowers generally on the same side, a great strategic change would have taken place. But it didn't—until now. One unexpected consequence of September 11th has been that this at last seems to be happening.

Initially, support from Russia's President Vladimir Putin for America's war in Afghanistan could be put down to cynical opportunism: it provided cover for his own war against Muslim separatists in Chechnya. Although that doubtless played a part, his rapprochement with America has gone much further than that, culminating in the signing of a big nuclear-arms-reduction deal when today's President Bush visited Moscow at the end of May. And, although there are plenty of Russians who still see any gain to America as a loss to them, support for co-operation seems to have spread well beyond President Putin's own coterie.

America's renunciation last year of its 1972 anti-ballistic-missile (ABM) treaty with Russia caused barely a murmur in Moscow, despite countless warnings of dire consequences. The idea of enlarging NATO to take in countries on Russia's borders no longer raises the blood pressure of top military or foreign-policy types (some now even worry aloud that an enlarged NATO could become less effective, rather than more dangerous). Before last year, the presence of American troops in the former Soviet Central Asian republics of Uzbekistan and Kirgizstan would have been thought tantamount to a declaration of war; now, after a spot of grunting, they are seen as a boost to Russia's own security.

What has happened? Essentially, a process of leaning towards the West that was already under way with a few starts but many fits has been accelerated by co-operation during the war in Afghanistan and by the mutual fear not only of Islamic militants but also of states or terrorists using weapons of mass destruction. Yet it promises to have a longer-term momentum mainly for economic reasons: Russia's desire for trade and foreign investment, along with a hope that in the future, membership of the World Trade Organisation could force Russia's politicians and businessmen to accept proper commercial law and regulations.

President Putin appears convinced that without economic integration with the West, Russia will never again be strong enough to defend its interests, let alone to carry any weight in the world. Russia is a sick country, with a shrinking population and a weak economy. It needs western medicine.

Although President Putin appears to be securely in power, he does not have his country on a leash. But his view seems to be prevailing, and America has a good chance of helping that process along. In these days of chasing terrorists, such great-power politics is sometimes considered unimportant. But that is short-sighted. A stronger, more confident relationship with Russia, developed beyond the good start that was made in Moscow a month ago, could offer some strategic advantages that will help with the terrorist problem too:

Infamous ambitions 4

Countries with nuclear, chemical or biological weapons (W) and research programmes (R)

	Nuclear	Biological	Chemical
China	W	W	W
Israel	W	W	W
Russia	W	W	W
US	**W**		**W**
Britain	W		
France	W		
India	W	R	W
Pakistan	W	R	R
Iran	R	W	W
Iraq	R	W	W
North Korea	R	W	W
Egypt		W	W
Syria		R	W
Libya		R	R
Sudan		R	R

Source: "Deadly Arsenals" by Joseph Cirincione, Carnegie Endowment for International Peace, 2002

• It could make America's military access to Central Asia permanent rather than just a temporary expedient. Such a presence, if the governments of Uzbekistan, Kirgizstan and others agree, could put pressure on Iran—or, if Iran really worries about Russia and Pakistan, as Iranians say, reassure it—as well as easing the longer-term task of maintaining stability in the region.

• It could bring useful intelligence co-operation, particularly in Central Asia, Iraq and the rest of the Middle East, reinforcing gains made in Afghanistan.

• It could bring even more western investment into Russia's oil and gas industries, helping in a few years' time to reduce the power in the energy market of the Organisation of Petroleum Exporting Countries, led by Saudi Arabia.

• It could ensure that Russia backs American efforts not only to force Saddam Hussein to allow UN weapons inspectors back into Iraq but also for any military action against him, as well as helping in subsequent efforts to rebuild the country. During much of the 1990s, Russia more or less represented Iraq at the United Nations and, along with France, blocked efforts to enforce the UN's Gulf-war ceasefire resolution requiring Saddam to disclose and destroy all his weapons programmes.

• It would make possible a sharp increase in co-operation between the world's two main holders of weapons of mass destruction in efforts to make such materials secure. There is already the Nunn-Lugar co-operative threat-reduction programme, named after the senators who sponsored it, which costs America more than $1 billion a year to help Russia tighten its nuclear security. But mutual mistrust has hampered its progress as well as limiting America's willingness to provide the funds. In January 2001, a commission led by Howard Baker, now America's ambassador to Japan, and Lloyd Cutler, a former White House counsel, recommended trebling the funds available to the Nunn-Lugar project.

• It could provide reassurance during work on America's national missile-defence (NMD) system that the end of the ABM treaty need not lead to a new arms race, at least not in Europe. Russia has shown interest in American offers to make NMD technology available to it. If rogue states' missiles are really going to pose a threat, Russia is a potential target. Iraq, Iran and North Korea are all close to its borders.

• It could dissuade China from seeking a Russian alliance to put pressure on the United States. Russia's real home is the West, even if it needs good relations with its Chinese neighbour, too. A Russian alliance with America could, though, help to encourage China to toe the line, in particular over issues such as weapons proliferation. It would also reassure the always panicky European allies that America is calming some big boats even as it is rocking others.

What, though, might a grand partnership look like? It is likelier to be an evolving alliance than something written suddenly on a piece of parchment, for Russia remains a semi-democracy with many pockets of truculence. Such an alliance could, though, be fashioned around two big projects: helping Russia join the World Trade Organisation; and combating the spread of weapons of mass destruction.

The urgency of this second project cannot be overestimated. The biggest worries about the security of nuclear, chemical and biological materials and know-how still surround Russian weapons hoards and programmes. An agreement could begin by finding ways to reassure each other about weapons security,

extending the Nunn-Lugar scheme, and then seeking to apply that methodology of weapons security to offer joint help (ie, persuasion) to other nuclear states, such as Pakistan.

The opportunity is clear, even if the task of grasping it is far from easy. It is to place Russia firmly in the West by giving it a central role in sorting out new international arrangements to confront the most important security problem of this era—the danger posed by weapons of mass destruction in the hands of unpredictable dictators and terrorists.

The defining characteristic of that danger is that it is collective, rather than a special danger for particular countries. As the sole global power and the epitome of modernisation, the United States is always going to be a prime target. But it is not the only target. One of the difficulties in dealing with terrorists is that many of them do not have conventional territorial or practical objectives: simply expressing their strength by provoking fear and anarchy may be enough to boost their credibility or to make governments wobble, and that can be done in many places and ways. And rogue states too have global objectives, either to obtain pay-offs or to push back the hegemon, as well as local ones: survival, grabs of land and resources, and so on.

On the flip side of that difficulty, however, stands an opportunity: that of garnering a broad range of support for measures to deal both with international, especially messianic, terrorism and with the spread of the ghastliest weapons. Such support has existed in the past, giving rise to the Nuclear Non-Proliferation Treaty (NPT), and conventions against both biological and chemical weapons. But these treaties have been flouted by some signatories as well as ignored by outsiders, and enforcement has been lax, to say the least.

The end of the superpower conflict in 1989 was not sufficient to tighten things up. Indeed, by relaxing the security surrounding weapons stocks and releasing scientists into the jobs market, it made things harder. Other large powers, including China and Russia, saw chances either to alter local balances of power or just to make some money by selling materials and know-how. Now, though, there is a chance to stem the flow. All the big powers, including China, should feel vulnerable to the terrorist *jihadis* as well as to nuclear-armed rogues.

America is newly motivated to act as the world's enforcer-of-last-resort. But it also needs to make it plainer to others that the spread of nuclear, chemical and biological weapons is not a subset of the war on terrorism but a huge danger in its own right. It could then seek to rally the big powers around its own *jihad*, declaring a *fatwa* against such weapons. That effort, as America has seen, needs to begin with Iraq, a country that has successfully evaded international commitments and controls. So far, though, America has done a terrible job of rallying support for military action to enforce those controls.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Saddam and his sort

Jun 27th 2002
From The Economist print edition

Toppling Saddam Hussein would be to strike three birds with one stone

IN THE litany of anti-American criticism, one of the main charges is that the arrogant superpower ignores multilateral laws and procedures and goes its own unilateral way. A prime example is said to be its headstrong desire for a "regime change" in Iraq, a plan virtually all its allies except Britain currently oppose. It must just be a Bush family feud, say some, given the elder Bush's failure to complete the Gulf war in 1991. Or a macho disregard for others' views, led by Republican hawks. Yet Iraq is actually the best example there is of America following multilateral procedures, which an arrogant unilateralist called Saddam Hussein proceeded to flout. The question, then, is what you do when international deals and procedure are broken. Sit back and pretend it hasn't happened?

That, alas, has been the multilateralist approach. During the 1980s, Saddam sought to develop nuclear weapons (along with biological and chemical ones) despite having sworn not to do so by signing the NPT. He used chemical weapons during his long war against Iran, and then on his own people in Kurdish areas. In 1991, after Saddam had invaded Kuwait and then been defeated in the Gulf war, the United Nations voted in its Resolution 687, which required Iraq to disclose, destroy and abandon all nuclear, chemical and biological weapons and associated research, as well as long-range missiles. It laid down a timetable for inspection and removal which was originally envisaged to last one year, during which economic sanctions were imposed as an enforcement mechanism. The sanctions permitted some exports of oil in return for imports of food and medicine.

Yet Iraq did everything it could to thwart and evade such disarmament, stringing the process out for seven years before eventually kicking the UN inspectors out altogether. Although during that time much progress was made in detecting and destroying weapons materials, Iraq was also shown to have lied at every stage—for example, about having ever produced a deadly nerve agent called VX, a denial it then replaced with a claim it had made only 200 litres, until the UN inspectors proved it had made at least 3,900 litres. So even what was discovered and admitted to cannot be considered definitive.

In the four years since the inspectors last visited Baghdad, four things have happened. First, Iraq rejected a much diluted new inspection regime, which offered a suspension of sanctions if it had been accepted. Second, Iraq succeeded in spreading the story that the sanctions have been responsible for the deaths of hundreds of thousands of Iraqi children—which they have, but the sanctions would have been gone long ago if Saddam had co-operated with the UN. Third, in 2001 Russia blocked a proposal to target the sanctions more specifically at particular imports while allowing more exports of oil. Fourth, while the UN's failed policy continued to be "enforced" by sanctions and by two "no-fly" zones policed by American and British aircraft in northern and southern Iraq, Saddam has been free to resume his weapons programmes, funded by oil and other exports channelled through a thriving black market.

At every stage, the multilateral approach has failed, blocked by Iraq or by permanent members of the UN Security Council, chiefly France and Russia. Those countries, China and others have been circumventing the sanctions. Recently Russia has changed its ways, to a degree, and has at last agreed to a modified (so-called "smart") sanctions regime. But what can be done now? All the options are terrible:

1) Continue with containment, ie, the status quo, allowing Iraq to blame America (to which the UN sanctions are ascribed) for children's deaths while rebuilding its weapons programme.

2) Demand that Iraq submit to a new inspections regime.

3) Give up altogether and wait till Saddam does something aggressive or barbaric that he can be punished for. This would make him a hero to those Arabs who like the thought of him seeing off the West.

4) Try to get a UN consensus to support an American-led invasion, intended to depose Saddam and to bring in a new regime willing to abide by Iraq's past international commitments.

5) Just invade, hoping that success will convince others that it was a good idea.

The apparent multilateral consensus is for either the second of these options or the fourth, though agreement is not universal even on those measures. And the question still arises: what do you do if either measure is (in effect) voted down or, in the case of a new inspections agreement, fails? Thus, the limit to a purely multilateral approach, under the ambit of the 1945 UN Charter, is exposed. Beyond economic sanctions, which have already failed or been scuppered by UN members, there is no enforcement mechanism except for American leadership. And that is what is likely to happen. There will be a multilateral process along the lines of option two. It will fail. And then America will invade.

Practical matters

It will be right to do so. Without an enforcement mechanism as a last resort, treaties and conventions designed to control the spread of the ghastliest weapons will ultimately collapse. There has to be a military sanction, albeit used extremely reluctantly. The trouble is that with these sorts of weapons, that sanction cannot wait until a nuclear or biological attack has taken place. It has to be applied pre-emptively.

But when? America has been saying at least since 1997 that it wants Saddam's regime to go. The case for acting soon is that it has already been left so long that America's credibility is damaged, and that the momentum gained by success in Afghanistan is there to be exploited. The case against is that with Israel and Palestine locked in violent conflict, no Arab country will support an invasion as they did the Gulf war in 1991. Saddam may be helping to stir up that conflict, and he may have links with the al-Qaeda terrorists, but little evidence of either has been disclosed.

In practice, the timing will be determined pragmatically. America will attack once the multilateral process has been under way for a while and has failed, and at a time that looks propitious. That choice is unlikely to be made while the Israeli-Palestinian war remains hot. Unless America has some clear evidence up its sleeve, it would be best advised to keep the case for invasion separate from the pursuit of al-Qaeda: the need to enforce the world's controls on weapons of mass destruction would make it strong even had September 11th never happened. The link to terrorism is a distraction.

Contrary to what some gung-ho armchair strategists say in America, an invasion would carry big risks. Those are not mainly of opposition by allies, though militarily the invasion would be a lot easier with logistical help from at least Kuwait and Turkey. The risks are that there could be large numbers of civilian Iraqi casualties if (probably when) Saddam uses them as shields, and that he might use whatever chemical, biological or even nuclear weapons he possesses. In either event the war could become very costly, including in American lives, and Saddam could seek to achieve a stalemate. Since failure looks unthinkable for the Bush administration, it would surely fight on. But the risk is then of Iraq becoming a new Vietnam, or Korea.

There are, though, big strategic gains to be had from a successful invasion, which are likely in the end to make the effort irresistible. First, there is the potential effect on would-be weapons proliferators all around the globe of a signal that international norms will ultimately be enforced. Both Iran and North Korea, the others named as in “the axis of evil”, have already been showing signs of greater willingness to talk. Syria, Libya, Sudan, Egypt and others among the “at least 25” countries said by Bill Clinton's defence secretary, William Cohen, to possess or be trying to get hold of such weapons would also think at least twice.

Second, depending on what regime replaces Saddam's, a pacified Iraq could help tilt the balance inside its neighbour, Iran, between reformists favouring a friendlier relationship with the West and more democracy, and the anti-American, generally clerical, hardliners. During the Iran-Iraq war of the 1980s, America supplied Iraq with some weapons in order to prevent Iran from dominating the region, a move

that has yet to be forgotten, let alone forgiven. If Iraq, Russia and Pakistan all become more stable and less hostile, many justified Iranian worries will evaporate—after a period, to be sure, of fierce condemnation of American interference.

Third, a pacified, disarmed Iraq, under a new government, would provide the chance for a new start in America's dealings with the rest of the Arab world. It badly needs one. Thanks to unholy but necessary trade-offs made in past decades it is not only tarred with the brush of supplying Israel with money and arms but also with doing the same for a repressive regime in Egypt, as well as offering support to Saudi Arabia and other Gulf states. Democracy exists nowhere, but economic failure and popular disenchantment exist almost everywhere.

This is the swamp in which fundamentalist or messianic terrorism has been able to breed, directed first at local regimes (especially Egypt's) but then, during the 1990s and on September 11th, at America. Somehow, the swamp has to be disinfected, even if it cannot be drained altogether. The first step in doing so will be the removal of Saddam Hussein. But that will be only the beginning of a long journey.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Building countries, feeling generous

Jun 27th 2002
From The Economist print edition

Like it or not, America is going to have to get involved in nation-building

LEBANON, 1982. Somalia, 1992-93. Haiti, 1994-95. Bosnia, 1995-present. These are the prime exhibits in the case against getting involved with “nation-building” abroad. George Bush rubbished such involvement during his election campaign in 2000. Opponents of trying to help others rebuild and then run their countries deride it as turning foreign policy into social work. They say that countries do better without interference from outside, that it wastes money and enriches criminals, and that it turns American soldiers into targets for terrorists. All those criticisms are valid, though not in every instance. Yet circumstances dictate that President Bush's America is going to have to get involved in it. So it had better find ways to make it work.

The United States is going to have to get involved with country-building in at least two places: Afghanistan and, assuming it invades successfully, Iraq. Critics will still argue that it would do better not to interfere, just as the French who helped America win independence from the British after 1776 did the new country a favour by keeping out of its way. But the stakes are too high for America now to do the same. A stable Afghanistan is vital to help keep Pakistan friendly and Iran on the straight and narrow, as well as steadying its other neighbours, Uzbekistan and Tajikistan. A stable post-Saddam Iraq will also be vital.

The nature of America's involvement may well differ between the two. In Afghanistan, other countries are keen to do their bit, and can be left to do a lot of the work and provide much of the money—but they still need American leadership. The United States is being a bit sniffy about expanding the international peacekeeping force in Afghanistan, but is keen on training a new national army, and is heavily involved in fighting the remnants of al-Qaeda. There is also the complication of opium production, in which Afghanistan is a world leader. Given its efforts against drugs in Colombia, America is not going to be happy leaving the Afghans to return to growing and processing poppies. But if it takes that away, it will be obliged to help put some other income-earner in its place. That could require even more money than the $1.3 billion over four years that America has pledged already.

In Iraq, blessed though that country is by resources, institutions and levels of education that Afghans can only dream of, the Americans cannot expect others to step in so readily. America may invade with only British and perhaps Turkish support. Russia may provide moral backing, and will be first in the queue of countries hoping to mop up oil contracts in the aftermath. But America may have to take on the initial policing and peacekeeping tasks virtually alone, as well as being the principal supervisor of the process of forming a new government. Some argue that it should allow or demand other Arabs to be the supervisor. It might. But to do so could invite even more fractiousness than Iraq's tribal nature already makes inevitable, as well as blunting the aim of using the new Iraq as an example for the old Arabs.

It will be a tricky business in both places. In Iraq, at least, the venture will have an imperial flavour, but America will want to avoid making the new country look like a colony. There will surely be no equivalent in Baghdad of General Douglas MacArthur in post-1945 Japan, for it would be too provocative for the other Arabs. Yet such is the American attachment to democracy that it is bound to try to require the new regime to adopt some sort of democratic constitution, along with a federal structure in order to give considerable autonomy to Iraq's Kurdish population. One trouble with Iraq is that it may be a country but it is not a nation, its borders and composition having been created by the League of Nations after 1918 out of part of the collapsing Ottoman empire.

In George Marshall's memory

Afghanistan and Iraq will be special cases, taken on because of their strategic importance. Will these, though, lead to more? Will George Bush become a global social worker? He has given some indications that he might: his unexpected announcement of a 50% increase in development aid at the UN aid summit in March, and a speech in April in which he likened the necessary efforts in Afghanistan to the Marshall plan with which America helped to revive Europe in 1948-51.

The critics of nation-building are right to be leery of it: outsiders take it on at their peril. The Marshall plan worked (although historians still debate how much difference it really made) because it injected funds into West European countries that already had the essential infrastructure of a functioning economy: government, the rule of law, banks, property rights. When the task is one of building that infrastructure from scratch, in countries where it has collapsed or long been non-existent, it is hard for anyone but locals to do it. They can be given training and advice, and a bit of money may help. As in Cambodia, a UN presence and money can make quite a difference. But it would be neither wise nor effective for America to try to take it on directly—except on a very selective basis.

There are three other ways, however, in which American involvement in this sort of thing could sensibly increase. One is already in use, in the Philippines, Pakistan and Yemen: joint operations with and training for armies and police forces trying to deal with terrorism. Although not often thought of in this way, this is classic country-building, albeit well targeted on strengthening a specific branch of government. Given that al-Qaeda is said to have cells in more than 60 countries, and that other terrorist groups can also be found in many places, this effort is likely to grow.

The second is through enhanced American participation in multilateral aid programmes. President Bush's March announcement concerned bilateral aid, but it implied close co-ordination with multilateral efforts. Here, as for Afghanistan, one parallel with the Marshall plan is valid: that such participation sends out a loud signal of political commitment. Links between aid and terrorism will be, and should be, played down. But at this time, when America is doing some vigorous boat-rocking in various parts of the world, signs of political commitment have value. And, even at $15 billion a year by 2006, this sign is not particularly costly. It amounts to less than 1% of the federal budget.

The aid is, as is becoming conventional, intended to be tied to conditions of “good governance” by the recipient countries, which also makes it an embryonic programme of country-building. America and others may have to make some efforts at helping countries to comply. Defining the conditions is difficult. But if it can be done, it could mark the beginning of a new era not only in the donation of aid but, more crucially, also in its effectiveness.

And Adam Smith's

The third way returns us to the notion of a foreign-policy doctrine of “integration”, suggested by Richard Haass of the State Department and mentioned in this survey's opening article. Mr Haass's proposal is that America direct many of its policies towards helping countries join, or become more deeply involved with, the international flow of trade and finance.

There is plenty of room for doubt over whether others in the Bush administration share this view. Many will consider it typically mushy State Department thinking. Actually, though, the only mushy part of what is being discussed is direct country-building, but that is what America's military interventions are going to land it with anyway. The unmushy part—freer trade—would in fact answer the criticisms of country-building: it is a way of helping countries to help themselves, just as South Korea did in the 1970s and 1980s, and China in the 1980s and 1990s. There is no doubt that it works: chart 5 shows the findings of a recent World Bank study comparing countries that have taken part in globalisation and those that

haven't.

Integration requires countries to enable themselves to be sellers, through their own reforms. It also, though, requires others to be willing buyers. In other words, it needs trade liberalisation in the rich world, especially for the two sorts of product that are easiest for poor countries to make and sell: agricultural goods and textiles. Last November America put its broad shoulders behind the launch of a new round of trade negotiations at Doha, in Qatar, under the auspices of the World Trade Organisation (WTO). This round is intended to be of particular help to developing countries. The question now, and for the next few years, is whether those shoulders will also be deployed in making the negotiations a success.

So far, the omens are poor. The administration succeeded in getting the House of Representatives to give it the “trade promotion” authority to negotiate, by the narrowest of margins, but the bill struggled in the Senate, and is now held up while the two houses haggle over amendments. President Bush's imposition of tariffs of up to 30% on steel imports offered a sop to protectionists who think trade endangers jobs in what is the world's biggest exporter. It also sparked off retaliatory threats from the European Union and others, pending a review of the legality of America's measures by the WTO. Meanwhile, an appalling new farm bill was passing through Congress which adds $170 billion in subsidies for American farmers over ten years, a rise of 80%.

The problem is not hard to detect. Mushy nation-building is cheap for Americans; trade liberalisation is costly for some domestic industrial and political interests. So far, President Bush has shown little stomach for fighting such lobbies. If his claimed love for free trade is to mean anything, though, he will have to start to find that stomach.

In the end, America's attitude to trade could prove to be the biggest test of whether this period is genuinely going to be one of broad-based “creation”, as Acheson put it, or whether the new activism that is making change possible will in practice mainly be limited to military interventions and their direct consequences. The prospects for trade will also be one of the biggest tests of whether America is going to be content to establish and nurture an international system based on norms and laws—as was done in the WTO—or whether it might now prefer one based primarily on power.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Our law, your law

Jun 27th 2002
From The Economist print edition

Treaties and global law are often a cheaper way to shape the world than military power

IT IS a country founded on the rule of law, as a better alternative to the rule of mad King George. In the past half century, it has been instrumental in spreading the principles of that law around the world, through the Nuremberg and Tokyo trials, the UN Charter, dozens of conventions and treaties and, most recently, the ad hoc war-crimes tribunals set up in The Hague for Yugoslavia and Arusha for Rwanda. International commerce increasingly uses American law and even its courts to govern deals, and America's Justice Department (like the European Commission) applies its antitrust powers well beyond its own borders. Since the 1940s, moreover, America has helped to establish and then use big multilateral institutions with collectively set rules—the International Monetary Fund, the World Bank, the General Agreement on Tariffs and Trade, and GATT's successor, the World Trade Organisation—to regulate trade and stabilise international finance.

This has long been thought of as a cost-effective way to make the world more to America's liking—to export American norms and to make the world easier for Americans (and everyone else) to trade in, travel in and fight wars in. That, indeed, is what critics of America have often argued in the past, most recently during anti-globalisation rallies in Seattle and Washington, DC, in 2000 and 2001: that these multilateral institutions are America's secret empire, through which its government and mega-corporations control the world. Like it or loathe it, the effort continues: even since September 11th the United States has led multilateral efforts to make rules against money-laundering binding on all countries, and has approved of the trial in The Hague of Slobodan Milosevic, once the Serbian dictator.

But this approach is under challenge—or at least in doubt. America under both Bill Clinton and George Bush has shunned a new international criminal court, the treaty for which has been ratified by 70 other countries, and the Bush administration has pulled out of efforts to agree on a verification protocol for the Biological Weapons Convention. It also rejected the 1997 Kyoto Protocol on climate change, though it was really just belatedly confirming a pre-emptive rejection by the Senate that was made in July 1997. Perhaps most alarming, however, has been its recent disregard for the Geneva conventions on prisoners of war in determining the legal status of people it has captured in Afghanistan and taken to Guantanamo Bay for questioning.

Why the challenge to the multilateral approach? There is an ideological answer and a practical one—which in turn explains why the ideological answer is now carrying such force. Start, then, with the practical one: terrorism and the menace of weapons of mass destruction. During the late 1980s and 1990s, the Bush (elder) and Clinton administrations tried to treat terrorism as a law-enforcement issue. Terrorists would be pursued and brought to justice, proving the awesome determination of American law. Thus, once two Libyans had been accused of planting the bomb that destroyed Pan Am flight 103 over Lockerbie in 1988, killing 270 people, the response was not military action against Libya but a trial under Scottish law in a court in the Netherlands. That approach was seen by many as slow, weak and not necessarily even just.

The scale of the outrage on September 11th made it inevitable that this would be seen as an act of war rather than mere criminality, and that the response would prove the awesome determination of the American armed forces. Moreover, even before September 11th, there was a strong view in the Bush administration that the treaties and conventions governing the proliferation of weapons of mass destruction had failed. If you needed proof of that, look at Iraq. That view became even more prominent

after al-Qaeda's attacks. These norms of good behaviour had to be enforced with the threat of military power and even, if necessary, the use of it. Treaties, after all, are not legal documents but political ones; they register commitments made by governments but threaten no sanctions if those commitments are broken or abrogated, apart from disapproval. On this view, the punishment has to be meted out by the American sheriff.

That, however, does not make treaties a waste of paper. The NPT probably has discouraged some countries from trying to develop nuclear weapons, by helping them gain confidence that their neighbours are not doing so, either. What anti-treaty Americans dislike most—and this is nothing new—is when a proposed treaty threatens to restrain America itself from doing something it might like to do. This is the issue with the Comprehensive Test Ban Treaty, which was rejected by the Senate in 1999. President Bush says he will not re-submit the bill for ratification. The concern is that the treaty will prevent America from testing new nuclear devices in future and therefore prevent it from keeping its arsenal up to date.

Yet for the country with already by far the world's largest and most advanced such arsenal, the restraint imposed by such a treaty is pretty theoretical; and if, in future, another country were found to be developing and testing more advanced weapons that threatened America's lead, it could always then withdraw from the pact. Instead, in order to retain its full autonomy, America has in effect undermined a treaty that promised to help restrain the spread of nuclear weapons —which it surely wants.

Still, that is the ideological answer: that treaties and other quasi-legal arrangements restrain the autonomy of the United States undesirably. This is buttressed by the argument that efforts to implement such treaties as if they were laws, through international courts and the like, are unconstitutional, illegal and politically dangerous, for the only legitimate laws and judicial systems are those rooted in and held accountable by national constitutions and parliaments.

Transnational structures, such as the international criminal court, have judges chosen by political horse-trading, so that their judgments are likely to be politically distorted, it is said. This may seem a bit rich from a country where the latest presidential election was decided by a Supreme Court whose members were selected by politicians and voted on political lines, yet that actually makes the point: law can never be wholly apolitical, so to be considered legitimate it must be rooted in a democratic system that citizens also consider legitimate.

A question of costs and benefits

War has given these arguments new force. But this is, in truth, a debate as old as the United States itself. Can the executive branch make international commitments that are binding on the legislative branch and on successors? The early answer, repeated many times since, was no: powers that the constitution assigns to Congress cannot be given away to others, except by constitutional amendment or by Congress's own say-so; and even when Congress ratifies a treaty, it can continually override its operations by, for example, refusing to provide any money. That principle was established in 1795 with the Jay treaty, concerning debts to Britain. And it lay behind the long wrangle over America's UN dues during the past decade.

The United States can be autonomous. But is it in its interests to be? As America's engagement with the rest of the world has increased during its more than two centuries of existence, especially in trade and finance but also in war, so the question has become steadily less simple to answer.

That explains why administrations have increasingly sought to use a constitutional loophole to make it easier to get foreign deals through Congress. A treaty requires a two-thirds vote in the Senate to ratify it, a higher hurdle than in most other countries, but something called an “executive agreement” needs only a majority vote in both houses of Congress. There is no distinction between the two in international law, but if Congress approves of the tactic, executive agreements are generally used as delegated powers of negotiation, especially in trade. Thus, between 1933 and 1945 the United States entered into 105 treaties and 123 executive agreements; between 1945 and 1952 it entered into 132 treaties but 1,324 executive agreements; and since then similar proportions have prevailed.

Trade offers one of the best examples of the complex balance between costs and benefits in this area. America does well out of freer trade with other countries, which is in turn facilitated by international agreements about barriers to trade. That is why it masterminded the General Agreement on Tariffs and Trade in 1947. But Congress then rejected a more powerful version, the International Trade Organisation (ITO), which would have had the power to settle disputes and enforce agreed-upon rules. For half a

century the GATT relied on voluntary settlement procedures, until America and others finally agreed to set up a body with the teeth originally envisaged for the ITO: the World Trade Organisation.

That body has, so far, been accepted by Congress, albeit with plenty of grumbling about the associated infringement of sovereignty. There is, however, continual friction between domestic trade laws and the rules agreed by America under the WTO. This arises most notably in two areas: American anti-dumping laws, which have been used heavily in recent years to curb specific imports; and the notorious Section 201 of the 1974 Trade Act, under which temporary trade barriers can be imposed by the president when he thinks a rise in imports has hurt an American industry. The recent steel tariffs were imposed under Section 201. And the Senate has recently been trying to remove both Section 201 and anti-dumping laws from the bill to give the Bush administration “trade promotion authority”.

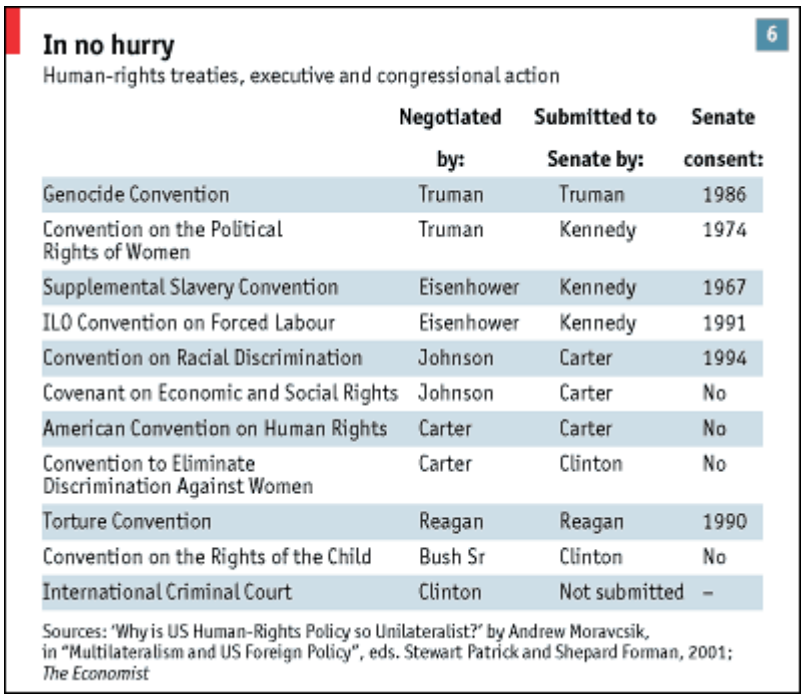
Anti-dumping laws are on the agenda for the new Doha round of WTO trade talks, for which that negotiating authority is required. America is not the only country to be accused of abusing such tools, but America's trade representative, Robert Zoellick, agreed to include them only grudgingly because changes to the rules could provoke congressional opposition. Section 201 rulings are constantly being challenged in WTO appeals panels, and that is what is due to happen with the steel measures. So far in the steel case, the administration can claim it has acted entirely properly by imposing its measures and then leaving the WTO to produce a verdict. The question, though, will be what happens if the panel rules against America?

Whatever the rights and wrongs of that case—regular readers will know that *The Economist* frowns on the steel measures—the reaction to a negative verdict will be a crucial test of America's willingness to continue to make the trade-off that lies at the heart of its membership of the WTO and indeed of its advocacy of membership of it for others: the idea that losses of national autonomy in trade policy are worth enduring for the sake of the greater good of expanding worldwide trade.

As President Bush has said repeatedly that he favours free trade, the chances are that in the end he will want to continue making that trade-off, though he will face plenty of opposition in Congress. Recent administrations have had some success in using international deals to enforce or reinforce American norms in other areas, both in spreading laws against corporate bribery to other rich-country members of the OECD and in spreading money-laundering laws through the Financial Action Task Force associated with the OECD. In commercial affairs, the trade-offs often look favourable, but it is important that the administration continue to bang its drum for them.

Exceptionalism for the powerful

The same trade-offs arise when human rights, military autonomy and environmental rules are involved, but successive administrations and Congresses have been less willing to make them. On the face of it, it is a paradox: America has promoted worldwide standards for human rights, military behaviour and even environmental protection, and has reinforced them through foreign aid, economic sanctions, moral suasion and even military intervention; yet Congress has often balked at ratifying the treaties codifying such standards, taking years to do it, demanding reservations on the treaties that nullify much of their domestic effect, or even rejecting them altogether.



In no hurry 6

Human-rights treaties, executive and congressional action

	Negotiated by:	Submitted to Senate by:	Senate consent:
Genocide Convention	Truman	Truman	1986
Convention on the Political Rights of Women	Truman	Kennedy	1974
Supplemental Slavery Convention	Eisenhower	Kennedy	1967
ILO Convention on Forced Labour	Eisenhower	Kennedy	1991
Convention on Racial Discrimination	Johnson	Carter	1994
Covenant on Economic and Social Rights	Johnson	Carter	No
American Convention on Human Rights	Carter	Carter	No
Convention to Eliminate Discrimination Against Women	Carter	Clinton	No
Torture Convention	Reagan	Reagan	1990
Convention on the Rights of the Child	Bush Sr	Clinton	No
International Criminal Court	Clinton	Not submitted	–

Sources: 'Why is US Human-Rights Policy so Unilateralist?' by Andrew Moravcsik, in "Multilateralism and US Foreign Policy", eds. Stewart Patrick and Shepard Forman, 2001; *The Economist*

Table 6, from an essay by Andrew Moravcsik of Harvard, "Why is US Human-Rights Policy so Unilateralist?", in a collection on "Multilateralism and US Foreign Policy" (Lynne Rienner Publishers, 2001), shows how this attitude has been consistent for at least 50 years. Even the convention against genocide took almost 40 years before it was ratified.

To that could be added the recent rejections of the Kyoto Protocol and of the CTBT, as well as the Bush administration's decision not to submit the Rome treaty for the international criminal court for ratification—three international negotiations in which the executive branch took a full part. Kyoto and the international court have, in effect, become the two most powerful witnesses deployed in the anti-Americans' case, especially in Europe: look, the critics are able to say, the United States is in favour of pollution and against justice.

Why the apparent hypocrisy, or at least stand-offishness? "Exceptionalism" is often offered as the answer—the American ideology, laid down in the early constitutional documents, of being both separate and different. But, as Mr Moravcsik argues, there is a simpler explanation: that America is a superpower and so can get away with it; combined with the fact that it is stably democratic, ideologically conservative and politically decentralised.

The superpower argument is not just about raw power, though that is part of it. In the case of the international court it is also about global exposure. The American armed forces are more active around the world than any other, and America feels the need to do more pragmatic, realpolitik deals with dodgy regimes than any other country. It is therefore understandably keen to avoid international conventions being used as a weapon against its own soldiers, or to name it as an accomplice to somebody else's sins. Pakistan could offer a current example.

The political arguments are, in essence, that a strong democracy resents having its hands tied by international agreements, for doing so limits the rights of domestic voters and institutions to set their own rules. America has, for instance, consistently fought to have socio-economic rights (such as trade unions and social welfare) excluded from international agreements, and differs from many countries (though not Japan) over the death penalty. Even if a Washington elite favoured concessions over such things, many American states would oppose them.

This fierce resistance is unlikely to change, especially under a Republican administration. The trade-off involved—acceptance of increased human-rights protections domestically and of potential punishments for American soldiers in international courts, in return for the spread of these legal norms to more countries and the punishment of more international criminals—does not appeal to a wide enough constituency. It is especially unlikely to at a time when the country is exerting its military power more strenuously, which makes it feel stronger and at the same time highlights the possible vulnerability of its soldiers to global courts.

It will be a pity, though, if at least a moderated form of this trade-off cannot eventually be made by

America for the international criminal court. Military power is a necessary part of international policing. But it is also a costly way to do it, and international courts can usefully supplement such actions as well as reduce their cost. The rules governing the international criminal court contain plenty of safeguards against the court's misuse as an anti-American weapon, including a power for the UN Security Council to suspend misconceived cases. These courts depend on political agreements, and on assistance from governments, just as Slobodan Milosevic's war-crimes trial in The Hague depended both on American finance and on evidence collected by American officials and NATO forces.

Despite the obvious risks of military action, its costs and benefits can readily be measured in the short term. But the benefits of court actions and moral suasion cannot; they must be experienced, over the long term, as an experiment. Military action and the court are not direct alternatives, but they could supplement each other. However, America's shunning of the international criminal court, if it is maintained, will make the experiment much less effective and informative. It will be even harder to know whether it could have played a useful role in meeting American goals.

The United States has also inflicted an unnecessary injury on itself through the manner in which it rejected the Kyoto Protocol on climate change. In truth, however, the Bush administration, and the 95 senators (of both parties, therefore) who voted against Kyoto in 1997 before the protocol had even been fully drawn up, are right to criticise the climate-change deal.

By failing to include developing countries even as part of a future programme of emissions-reduction, the Kyoto deal was inadequate. Although the rich countries have caused the vast majority of the greenhouse-gas emissions in the past, the poorer countries are likely to contribute heftily to future emissions, if they are blessed by faster economic growth—and it is future emissions that are going to have to be curbed. Moreover, even for rich-country emissions Kyoto was inadequate, for although it set ambitious reduction targets it did not mandate terribly credible methods of achieving them.

The question then, however, is whether America was right to respond to such flaws simply by swiping Kyoto off the table, or whether it should have tried to improve upon it in a further bout of negotiations. Almost certainly, the Bush administration was correct in its claim that the protocol stood no chance of ratification by Congress. Yet it did not need to submit it to a vote—as, indeed, the Clinton administration had not, since 1997. It could have put forward proposals for a new and better protocol, and then challenged other countries to show why the existing protocol was superior.

That would have been a cleverer thing to do, assuming that the United States cared enough about diplomacy—but it doesn't, all that much. When it needs others to help get things done, it values diplomacy. Yet when others are wanting it to do things, the superpower can shrug its shoulders. In the case of global warming, that insouciance has harmed America's reputation.

Has it also harmed the country's interests, though? In so far as the Kyoto rejection has made others slightly less inclined to co-operate when it wants them to, yes; but that is not at present a big problem. On policies towards global warming, it has led the Bush administration to propose a purely national effort to reduce emissions that looks unlikely to be effective—which means the pain will be deferred, rather than avoided.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Imperial overstretch?

Jun 27th 2002
From The Economist print edition

More a question of psychology than economics

PAUL KENNEDY, a British historian based at Yale, made himself notorious in 1988 by suggesting in his magisterial book, “The Rise and Fall of the Great Powers”, that dominant powers had in the past fallen because of “imperial overstretch” and that the same might well happen to the United States. His judgment soon looked premature: the next year the Berlin wall's fall reduced the stretch with a twang, and the next decade America's economy became a world-beater. But that does not mean he will be wrong for ever.

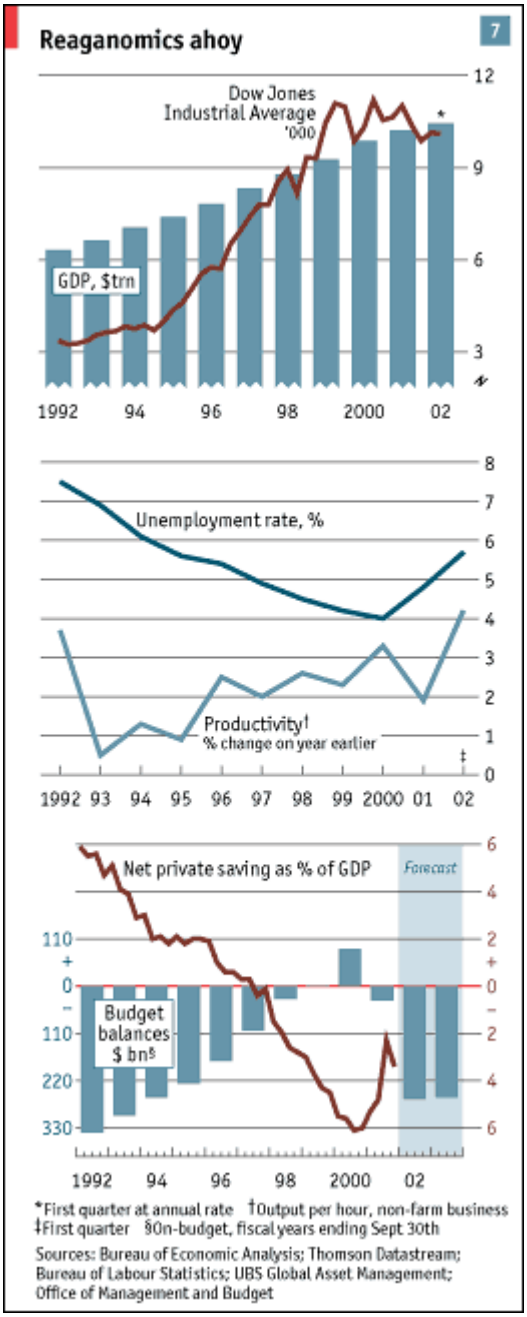
Admittedly, the prospect still looks far-fetched. The burdens of America's world role are large and expanding, but not overwhelming. The resources produced by America's economy are vast, and the country recovered quickly from last year's brief and mild recession. Even so, the stretch is going to increase during the next few years. The real question is not whether America can afford its global burdens, it is whether it is going to want to afford them. Or, to put it another way, whether the effort required to afford them could have economic and political consequences.

On the face of it, the past offers some comfort. In the 1960s, at the height of the cold war and Vietnam, defence spending exceeded 9% of GDP in some years. In the 1980s, during Ronald Reagan's defence build-up, it reached 6%. In 2000 it was a mere 3% of what was by then a much larger GDP. And even the White House's proposal to increase spending next year by $48 billion to $379 billion, amid promises for more after that, would still leave it below 4% of probable GDP. That spending will exceed the military budgets of the next 14 biggest defence spenders combined, but will still be readily affordable.

America's military chiefs do not, though, think that next year's enlarged budget is anywhere near large enough. They argue that the increase has done no more than to repair damage done to reliability and readiness by previous trimming. The budget did little to transform the armed forces in ways that are often debated but hard to implement, such as turning army divisions into lighter, more mobile units; shifting the air force away from fighters and further towards bombers; and transferring resources from peaceful areas such as Europe towards hotter spots. The

missile-defence scheme remains in its infancy, and is likely to cost more than current plans envisage. Following the war in Afghanistan, there will be pressure to spend even more on unmanned aircraft and precision-guided munitions. And the current strain on manpower is likely to persist for a long time, given the probable invasion of Iraq, continued fighting in Afghanistan, the desire to maintain bases in Central Asia, and subsequent peacekeeping and training roles in Afghanistan, Iraq and elsewhere.

The services already have trouble recruiting enough men and women for what is a 1.4m-strong force, and there has been no rush to volunteer since September 11th. The cost of recruiting each extra soldier is said to average $15,000. More will be needed, and restoring conscription is for the moment a political non-starter. Nor can America afford to rely upon increased spending and capabilities among its allies, both because they have proved poor at spending and because even the NATO countries are so far behind technologically that it is getting ever harder to fight alongside them.



Reagan politics, Reagan economics

Defence spending is thus likely to rise quite sharply for several years, as will the much smaller budgets for the new Department of Homeland Security and overseas aid. At this point, however, the past begins to look a bit less comforting.

High levels of defence spending for Vietnam in the late 1960s and the Reagan build-up in the 1980s both contributed to the emergence of big federal budget deficits. In the first case, the deficit helped stoke inflation, with later reinforcement from an Arab oil embargo in 1973; in the second, the deficit meant that short-term interest rates had to be high to curb inflation and that long-term interest rates—the main determinant of corporate borrowing costs—stayed high for longer than they would otherwise have done.

If defence spending does soar during this decade, the consequence is likely to be a moderated version of the Reagan era. As then, the White House has committed itself to cut taxes at the same time as raising spending, so unless a lot of money can be cut from other programmes a large federal deficit is a likely outcome. Inflation may not jump as a result, because the Federal Reserve can be relied upon to raise interest rates if necessary. But that will make economic growth a bit slower, especially if extra federal borrowing again raises long-term rates. And there is a considerable risk that America's deficit on the current account of its balance of payments, already more than 4% of GDP, could help bring about a sharp fall in the dollar. That will be helpful for exporters, but could force interest rates to rise further.

Thus, the picture starts to look rather like the one that led Professor Kennedy to make his premature judgment: twin budget and current-account deficits raising the cost of money and making the dollar

volatile, while politicians and voters start to wonder whether they have taken on too much. Three years after Professor Kennedy's book, America took on the Gulf war—but made its allies, especially Japan and Germany, pay the bills.

There is, of course, a crucial difference. The Gulf war in 1991 came after a decade in which the American economy had performed poorly, at least in comparison with its apparent new rival, Japan. A study at the Massachusetts Institute of Technology, culminating in a 1989 book called “Made in America”, shocked readers by showing how badly American firms lagged in what were thought of as the key industries and technologies of the time. By contrast, the September 11th attacks came after a ten-year economic expansion, in which annual productivity growth had jumped, unemployment had plummeted and American firms seemed to be leading in all the key industries and technologies.

Far from deepening America's recession, as many economists immediately feared, the terrorist attacks turn out to have coincided with the beginnings of a recovery. Cuts in interest rates and in taxes, both before the attacks and after, seem to have helped maintain growth in consumer spending by ramping up house prices and making employees confident that even if they lost their jobs they would quickly find new ones. It would be premature, though, to declare that the first decade of the 21st century is therefore bound to be as buoyant for America's economy as was the final decade of the 20th.

Once again, America needs to be compared with Japan, but in a rather different way. Like Japan in the 1980s, America in the late 1990s was given an exaggerated sense of its economic strength by a huge speculative bubble in the country's stockmarkets. To alter the metaphor, it was rather like an Olympic athlete on steroids: basically impressive, but made to look even more so by the artificial stimulus of a financial-asset boom. Now the steroids have been withdrawn, America's economy remains impressive, but they are likely to leave side-effects.

Share prices crashed most spectacularly in the Nasdaq high-tech market in 2000-01, but the more conventional Dow Jones Industrial Average also slumped. In history, such crashes have always produced economic traumas of some kind, generally a combination of banking collapses, corporate bankruptcies, accounting scandals and waning confidence among consumers and investors. Bit by bit, these elements are emerging. Scandals at Enron, Global Crossing, WorldCom, Tyco and others are spreading disillusionment about the integrity and honesty of corporate managers; revelations about conflicts of interest and favouritism at investment banks are spreading a similar disillusionment about Wall Street.

The effects of such disillusionment on the wider economy are likely to be indirect: it will probably sap consumer confidence, and lead households to save more of their incomes for fear that their pension investments might be worth less than they once thought; companies will find it harder to raise new capital, and so will become more cautious about how much debt it is safe to carry and thus about capital investment.

In the immediate future, this probable economic bumpiness will be more important for domestic American politics than for international affairs. The determination to fight against al-Qaeda terrorists and, in due course, against Saddam Hussein, will surely not be affected. Economic weakness, especially if it is expressed in rising unemployment, will, however, make the Bush administration even keener to pander to domestic lobbies for trade protection, as it already has for steel and farms. Again, this will be a repeat of the Reagan era, when free-trade rhetoric was contradicted by measures to restrict imports from Japan.

The virtues of flexibility

Even so, there remain good reasons to feel confident about America's longer-term prospects; scholars should not be following Edward Gibbon by writing “The Decline and Fall of the American Empire” just yet. Where Japan suffered following its crash in 1990 from a rigid economy and political paralysis about what to do about it, America may suffer from some political paralysis but its economy is flexible enough to sort itself out, in time, cleaning up messes and reallocating resources rapidly. Gibbon, remember, was writing about the trials and tribulations of Rome's empire—but it was an empire that endured for hundreds of years.

Entrepreneurship looks strong and management capable—if overpaid. The greater intensity of competition in the American market than in either Western Europe or Japan continues to force firms to keep changing and innovating, and restrains their ability to raise prices. In information technology, American-based firms still lead the world. And venture capital has been flowing rapidly into the newer industries of fuel cells, genetics and medical technologies.

There are, though, two small clouds on this otherwise sunny horizon that could be worth attending to. The first is that, despite the technical prowess of its universities, fewer Americans are taking undergraduate degrees in natural sciences and engineering than students in almost any other rich country. As chart 8 shows, only 6% of American 24-year-olds have first degrees in those subjects, a lower figure even than in Europe and far lower than in the stars on this measure, Finland and (surprisingly) Britain. America's universities lead the world in all the sciences, but many of their students, especially postgraduates, are foreign rather than American.

According to Paul Romer, an economics professor at Stanford University noted for his work on the links between technology and growth, the reason for this is likely to be that science courses are costly to provide, so colleges make them hard to pass. While English, history and economics faculties give high grades to 75% or more of their students, computer-science and chemistry faculties give A or B grades only to around 60%. The fault may be grade inflation in the arts courses, but the result is that fewer Americans want to take science.

Does that matter? It is a splendid thing that foreign students come to Stanford, MIT and elsewhere to study science; some of them stay and found companies or work in existing ones, while others return home and (it is hoped) speak warmly of their American experiences. Mr Romer does not want to discourage them. But he and others argue that the longer Americans continue to shun science courses, the more it will make America vulnerable—to a change in the wish of trained foreigners to work there, say, or just to a weakening knowledge of technical subjects in the workforce as a whole. He advocates subsidies to alter the incentives faced by both professors and American students.

The second small cloud looms over the new industry of biotechnology. It is the result of political opposition to the use of stem cells and other material from human fetuses in genetic research, which is a side-effect of the fierce battle that has long raged in American politics over abortion. What the ban on this and on all cloning means is that the pioneering research in this new and evolving field will take place elsewhere, in countries that do permit it. If the resulting industry turns out not to amount to much, this may not matter; for the time being, America remains the hottest place to do other sorts of medical research. But if it fulfils the dreams of its advocates, America will have sacrificed its domestic hopes in one of tomorrow's industries.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

New world ahead

Jun 27th 2002
From The Economist print edition

What might future historians say about this new period of "creation"?

THE opportunities are great. The resources with which to grasp them are great, as is the determination. Yet the obstacles are great too. Will they, can they, be overcome? When assessing his period in government after 1945, Dean Acheson wrote, in "Present at the Creation", that:

> To the responsibilities and needs of the time the nation summoned an imaginative effort unique in history. Yet an account of the experience, despite its successes, inevitably leaves a sense of disappointment and frustration, for the achievements fell short of both hope and need. How often what seemed almost within grasp slipped away.

Once again, a considerable imaginative as well as physical effort is being summoned. Already, a radically warmer relationship with Russia can be counted as an important achievement, closing the chapter of history that began in Acheson's time. Again, though, there will be disappointments. Anyone who thinks that an imperial, exceptionally dominant America can now achieve anything it wants to need only glance in the direction of Israel and Palestine where, whatever its will (which has certainly wavered at times), America lacks the levers with which to force peace on the protagonists.

There is, moreover, a long battle ahead against four sets of opponents. One is the terrorist organisation which began this war last September. Despite America's triumphant dislodging of al-Qaeda's Taliban hosts in Afghanistan last autumn, and despite the disruption that that war and the associated surveillance and police operations have caused to the terrorists' infrastructure, it is likely that the true battle has only just begun. It is hard to discern exactly what are the objectives of Mr bin Laden and his fellows, but high on their list must stand a desire to grab control of one of the Islamic states themselves—preferably Saudi Arabia or Egypt, or, even better, nuclear-armed Pakistan. As long as that remains feasible, al-Qaeda's losses in Afghanistan in the past nine months will represent just a setback, not a defeat, rather as the failed 1905 putsch in Russia was for Lenin and the other revolutionaries.

Early 20th-century Russia does not offer an exact analogy to Saudi Arabia, Egypt and Pakistan today, but like those countries it had a regime which failed to move with the times and failed to deal conclusively with a long tradition of terrorism and revolutionary ferment. Tsarist Russia looked secure after the shock of 1905, but then fell to the Bolsheviks in 1917. Rebels who have a cause can readily regroup and wait until a new opportunity presents itself. The Russian revolution shaped the 20th century, just as an al-Qaeda revolution in Saudi Arabia, Egypt or Pakistan could shape the 21st. It is not known whether Mr bin Laden is still alive, but it is also not known whether, in terms of this analogy, he represents the ultimate Lenin or Trotsky.

The second set of opponents is formed by countries which either have or are trying to acquire weapons of mass destruction. President Bush called three of them an "axis of evil" and drew down brickbats on his head for doing so. But although his phrase was over-simplified and implied a unity of behaviour and purpose between Iraq, Iran and North Korea that does not exist, he was nevertheless putting his finger on a real issue, one that is separate from the fight against terrorism. Neither nuclear nor biological nor chemical weapons can be uninvented, and it is doubtless unfair that they are already possessed by the traditional great powers and that those powers would like to prevent others from getting them. But such prevention is vital, for the thought of any of these weapons actually being used is so horrifying.

Iraq is the only country among the three that is likely to require a real fire-fight to persuade it (or, rather, Saddam Hussein) to give up its weapons programme. Iran should in time be persuadable once its own security fears (one of which is caused by Iraq) have been quelled, and once Russia and China have been persuaded to stop helping it edge in the nuclear direction. North Korea is likely to remain more a case of containment than of confrontation, in which a firm line must be drawn by America against new weapons research or testing, but in which a parallel process of engagement by South Korea will offer the main hope for longer-term peace.

There cannot be much doubt that, one way or another, Saddam Hussein will be toppled fairly soon by an American attack. There is, however, a lot of room for doubt about how smoothly the change will occur, and about what the consequences will be. At its simplest, to have punished the Iraqi dictator for breaking the Nuclear Non-Proliferation Treaty and thwarting UN inspections efforts will be a fine thing to have done, for the regional balance of power as well as for its deterrent effect. But the manner of his removal, and the popular response to it in Iraq and elsewhere, will also help determine how much of a disincentive his defeat will be to other would-be acquirers of weapons of mass destruction. If he proves able to use such weapons in order to raise the costs to America and any allies of removing him, then other countries and dictators could still think it worthwhile to develop them.

Also, however, an awkward pair of quandaries surround that war: one preceding it, the other following it. No prizes for guessing that the preceding quandary concerns Israel and Palestine, a conflict and set of dilemmas that has beset American foreign policy ever since Acheson's time, when Harry Truman decided to support the establishment of an Israeli state.

The immediate test for George Bush will be whether his diplomats can help stabilise that conflict; the historians' test will be whether he can then help bring about the establishment of a Palestinian state alongside something akin to the boundaries set up for Israel in the 1940s. In his favour are two things: a new determination on the part of the most important Arab country, Saudi Arabia, to press for a peaceful settlement and resolve the issue before it explodes in everyone's faces, including the Saudis'; and the strong feeling, which sustained peace talks during the 1990s, that there is no real alternative for either of the protagonists except a two-state solution. Against him is, well, history and everything else.

That seemingly eternal struggle may not prevent an American invasion of Iraq, if some sort of new stalemate can be achieved in the meantime. A mere stalemate would, however, make harder the other quandary, which concerns what follows a change of the Iraqi regime. The creation of a new Iraq, and with it a new relationship between America and the Arab world, will probably represent the most important single step in this long battle.

Such a step will bring a danger that the American invasion could help encourage revolutions or new alienation in the most powerful countries of the region, Egypt and Saudi Arabia, rather as Iran's revolution of 1979 caused two decades of fundamentalism and anti-American hostility there. It will also bring a hope that, if there can be a more placid Middle East, perhaps achieved with Saudi help, as well as a renewed Iraq that is run by Arabs but is no clear threat to other Arabs, it could become possible to remake ordinary Arabs' view of America, and of their own regimes.

The things beyond the Israeli conflict that irritate some Arabs—American bases in Saudi Arabia, military aid to the Egyptian government—could then be honourably phased out. The sort of broad institutional structures that help bind countries together and ease mistrust could become feasible in that torrid region. Detractors call them talking shops, but forums for security or trade, say, have helped ease tensions in other places, such as Asia and Latin America. So far the scope for such things has been limited in the Arab world and the rest of North Africa either by mutual hatreds or by the dividing lines set by the Middle Eastern conflict.

These first two sets of opponents are formidable enough. Even armed with his new friendship with Russia, President Bush is unlikely to repeat his father's mistake of talking dreamily of a “new world order”. For the third set of opponents that America faces consists of the many disorderly events that are liable to jump up and bite any foreign-policy maker foolish enough to think that he has everything nicely planned and under control.

The ever-present danger of war between India and Pakistan is a prime example. If war were to break out

it would not only bring the horrific risk of nuclear conflict but could also, by deposing Pakistan's currently pro-American government, open the way for a more fundamentalist regime or for an anarchy within which Mr bin Laden's terrorists would thrive.

One American eye will also have to be trained on China. Before September 11th, China was many people's top tip as America's biggest long-term challenge, for reasons which have not gone away: its possible political fragility, its resentment of America's military presence in the Asia-Pacific area, and, the nastiest headache of all, its designs on Taiwan. Meanwhile, another American eye needs to be on Indonesia, which is the world's largest Muslim country and is basically friendly to the West but which nevertheless has a still-fragile democracy and piles of separatist problems.

With opponents like all of those, who would want a fourth? Certainly not America, if it has any sense. Yet it does look like facing another sort of opposition: from its friends—at least if the mutterings of politicians and commentators in Europe are anything to go by.

After all, the world will have one dominant power, throwing its military weight around and being none too helpful in international negotiations over trade, the environment and justice. And there will be many resentful countries, several of which think they know better than the bumptious Americans, full of intellectuals keen to argue that the American way is wrong, or bound to end in tears. Put like that, this period of Achesonian creation can easily look likelier to be one of destruction, especially of the transatlantic alliance but also possibly of others.

Yankee go home—but take me with you

Yet that is the wrong way to put it. A break-up must be a theoretical possibility, but it is extremely unlikely in practice. The bold heading at the top of this paragraph puts the prevailing view of America rather better. It was the title of a monograph written a couple of years ago by an Indian politician, Jairam Ramesh, for the Asia Society in New York around the time of Bill Clinton's visit to India.

Beyond the specific circumstances of the subcontinent, Mr Ramesh's argument captured well a wider sentiment. India, like many countries in Europe, Africa and Latin America as well as Asia, often wants to rebuff or keep at bay American pressure or influence. Yet at the same time Indians dearly want to be part of America's world and of the modernity and prosperity that it both brings and represents. Outsiders are often ambivalent about America, and especially about particular American policies. But these days the ambivalence is mostly warm and sympathetic, not a hotbed of hostility.

Far from a world fracturing away from the powerful United States, the reality is that the world has been moving closer to it, and to its values and ways. The clamour of Indians, Chinese, Guatemalans and millions more to go to America to work or to be educated is not merely a mercenary reaction to its wealth. It is a reaction to the blend of opportunity, knowledge and freedom that America provides, and that nowhere else comes close to matching.

That clamour is also a reflection of the fact that most of the world's big, populous countries—India, China and Russia, most notably—have been trying for the past decade or more to open up their economies to match more closely the sort of economic freedoms that have made American capitalism, and American society, so successful. They are not trying to reproduce America exactly, and they never will. But they have been, and are still, moving towards its way of doing things rather than away from it.

This could change. But it would take an extraordinary shock to make that happen. America, in its current bout of military activism and diplomatic engagement overseas, is certainly capable of errors as well as hubris. Its policies on trade are especially short-sighted and could slow the future progress of the very globalisation that it has long favoured. But nothing it seems to be envisaging now looks capable of causing a shock of the sort necessary to turn the world's back upon it.

The only possible candidate could be the venture causing the most neuralgia in Europe, namely the invasion of Iraq. To do so, though, that attack would have to turn into an astonishing, Vietnam-like morass, probably with other Arab countries joining in the conflict. And when pondering that unlikely outcome, it is worth remembering that even the Vietnam war itself did not cause a wholesale turning against America. In those days, the cold war made solidarity with the United States more imperative, perhaps, but these days there are many more countries that are broadly sympathetic to America than there were in the 1960s.

They have new democracies or want them; they have capitalism, they want prosperity, they want freedoms. America is not the only country that epitomises such things, but it is for now their ultimate expression. It is also, for now, the only country willing and able to provide leadership to others in all its dimensions—technological, economic, financial, diplomatic as well as military.

In the end, what is historically unique about American leadership is not its power but its ultimately self-denying purpose: the more that America succeeds in spreading its interests and values—in politics, security or commerce—the less relative power it will command. That is what happened to Western Europe and Japan after 1945; they narrowed the gap, especially in economics, between themselves and America, thanks to its help and values. In future, the more trade, the more investment, the more security, the more democracy the world has, the likelier it will be that an open, democratic China (or even India) will one day match American power. That day is many decades away. But as long as America leads the world and sheds its reluctance to act as sheriff, it will edge closer.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Sources and acknowledgments

Jun 27th 2002
From The Economist print edition

Many people gave their time and advice generously to assist with the research for this survey, for which the author is very grateful. He would like in particular to acknowledge the kindness of Paul Kennedy and John Gaddis at the International Security Studies department of Yale University, and of Graham Allison at Harvard's Belfer Centre for Science and International Affairs.

"Present at the Creation: My Years in the State Department", by Dean Acheson, 1969

"We Now Know: Rethinking Cold War History", by John Lewis Gaddis, Council on Foreign Relations/Clarendon Press 1997

"Does America Need a Foreign Policy?", by Henry Kissinger, Simon & Schuster 2001

"Special Providence: American Foreign Policy and How it Changed the World", by Walter Russell Mead, Knopf 2001

"While America Sleeps: Self-delusion, Military Weakness and the Threat to Peace Today", by Donald Kagan and Frederick W. Kagan, St Martin's Press 2000

"The Reluctant Sheriff: The United States after the Cold War", by Richard N. Haass, Council on Foreign Relations 1997

"The Paradox of American Power: Why the World's Only Superpower Can't Go it Alone", by Joseph S. Nye Jr, OUP 2002

"A Problem from Hell: America and the Age of Genocide", by Samantha Power, Basic Books 2002

"Saddam Defiant: The Threat of Weapons of Mass Destruction and the Crisis of Global Security", by Richard Butler, Phoenix 2000

"Should the Government Subsidize Supply or Demand in the Market for Scientists and Engineers?", by Paul M. Romer, in "Innovation Policy and the Economy, Volume 1", edited by Adam B. Jaffe, Josh Lerner and Scott Stern, National Bureau of Economic Research 2000

"Legal Problems of International Economic Relations", by John H Jackson, William J. Davey and Alan O. Sykes Jr, West Publishing 1995

"Is There Really 'Law' in International Affairs?", by John R Bolton, *Transnational Law and Contemporary Problems*, Vol 10 Number 1, Spring 2000

"The Spirit of the Laws", by Harold Hongju Koh, *Harvard International Law Journal*, Vol 43, No 1, Winter 2002

"The US as Global Attorney", by Gregory J. Wallance, *Amicus Curiae*, January 23 2000

"Should We Take Global Governance Seriously", by John R Bolton, in "Trends in Global Governance: Do They Threaten American Sovereignty?"*Chicago Journal of International Law*, Vol 1, No 2, Fall 2000

"A United States Human Rights Policy for the 21st Century", The 2001 Richard Childress Lecture, by Harold Hongju Koh, *Saint Louis University Law Journal* (forthcoming)

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com RESEARCH TOOLS SURVEYS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Offer to readers

Jun 27th 2002
From The Economist print edition

Reprints

Reprints are available should you wish to order extra copies of the survey. Please send your request to the relevant region:

World-wide (excluding North America):

Rights and Syndication Department
26 Red Lion Square
London
WC1R 4HQ
United Kingdom

Tel: +44 (0)20 7576 8000
Fax: +44 (0)20 7576 8492
E-mail:rights@economist.com

North America:

Rights and Syndication Department
111 West 57th Street
New York
NY 10019
USA

Tel: +1 212 541 0532
Fax: +1 212 641 9808
E-mail:usrights@economist.com

Corporate offers and customised reprints

For corporate reprint orders of 500 or more and customisation options, please contact the Rights and Syndication Department in the relevant region:

World-wide (excluding North America):

Rights and Syndication Department
26 Red Lion Square
London
WC1R 4HQ
United Kingdom

Tel: +44 (0)20 7576 8000
Fax: +44 (0)20 7576 8492
E-mail:rights@economist.com

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

WorldCom

Another cowboy bites the dust

Jun 27th 2002 | NEW YORK
From The Economist print edition

Despite the shenanigans at WorldCom, America's telecoms industry could soon be on the mend

Get article background

FINANCIAL fraud is supposed to be a sophisticated business. That is why boards of directors, regulators and auditors find it so hard to stop. But the $3.8 billion accounting fiddle that WorldCom, a once-high-flying telecoms firm, owned up to this week lacks any of the impenetrable dealings that masked the worsening finances at Enron. WorldCom, it turns out, did not bother with the likes of off-balance-sheet partnerships to hide its problems. It simply made the numbers up.

The rumours had been growing. But nobody had any inkling of the mess that John Sidgmore, WorldCom's new boss, revealed on June 25th. Following the departure in April of Bernie Ebbers, WorldCom's founder, an internal audit discovered an “irregularity” in the way the company had been booking capital expenses. A subsequent investigation found that $3.8 billion-worth of costs had been wrongly classified as capital expenses over a five-quarter period from the start of 2001. KPMG, which replaced the firm's longstanding external auditors, Andersen (yes, them), in May, is investigating further. Unlike costs, capital expenses are written off against profits over time, so the error boosted reported cashflow and profits. WorldCom reported a profit of $1.4 billion last year, and $130m for the first quarter of 2002. These numbers were, in fact, fictitious.

Companies have been misclassifying costs for years. In 1971 in Britain, Rolls-Royce went under after fooling itself that costs related to the development of a new jet engine were in reality capital expenditure. But the problems at Rolls-Royce looked like old-fashioned British incompetence. The motives at WorldCom seem altogether more modern.

So far, everybody is blaming Scott Sullivan, WorldCom's chief financial officer until he was sacked on June 25th. “Our senior management team is shocked by these discoveries,” said Mr Sidgmore. Nevertheless, on June 26th the Securities and Exchange Commission (SEC), which had been investigating the company's accounting, charged WorldCom with fraud.

Rogues' gallery

	Share price % fall Jan 1st 01 - Jun 26th 02	
Enron	99.9	Filed for bankruptcy after fiddling accounts; top management resigned
Global Crossing	99.7	Filed for bankruptcy after fiddling accounts
Adelphia Communications	99.1	Filing for bankruptcy after off-balance sheet loans to directors; CEO resigned
Peregrine Systems	95.8	SEC is investigating accounting practices; CEO and CFO resigned
Qwest Communications	95.6	CEO Joseph Nacchio resigned
WorldCom	93.8	CFO sacked after cover-up of $3.8 billion fraud
Dynegy	88.9	SEC is investigating accounting practices; top management resigned
ImClone	79.4	Former CEO Samuel Waksal charged with insider trading
Tyco International	78.4	CEO Dennis Kozlowski resigned after being charged with tax evasion

Sources: Thomson Datastream; *The Economist*

One person the SEC will want to talk to is Mr Ebbers, who was under pressure to raise WorldCom's sagging share price. Mr Ebbers owes WorldCom over $400m, which he borrowed to bet on WorldCom shares. These loans are secured on Mr Ebbers's personal assets, including a yacht-sales company, a soyabean farm, and nearly 27m WorldCom shares. The entire board had a strong motive to keep up the share price. Between them, the 12 directors and executives named in the company's latest proxy statement, filed in April, own nearly 50m WorldCom shares. Even the outside directors are big owners: Max Bobbitt, a telecoms consultant who chairs WorldCom's audit committee, has nearly half a million shares.

Mr Sidgmore will now have to rethink his tactics. The company had been hoping to negotiate a $5 billion bank loan, in part to refinance a $2.65 billion loan on which it is now in default (because its accounts no longer comply with GAAP standards). These negotiations now look doomed. That leaves liquidation or restructuring as the main options. Nancy Kaplan of Adventis, a telecoms consultancy, thinks that any attempt to restructure WorldCom will fail. The company is good at selling data and other telecoms services to its corporate customers. This is a business with real margins and growth prospects. But it has lots of weak businesses as well, including its declining consumer long-distance unit and its failed mobile-telecoms arm. This makes it harder to shrink.

The more likely outcome, says Ms Kaplan, is that WorldCom's competitors will pick off its assets at bargain prices. These include thousands of miles of “backbone” fibre-optic cable, which runs between cities, together with WorldCom's efforts to upgrade the “last mile” underneath cities so that businesses can connect to this broadband network. Both have problems. The capacity glut in backbone fibre persists. And the patchwork of networks that run beneath the world's big cities lacks scale and is plagued with technical problems. Top of the list of buyers ought to be AT&T, WorldCom's only serious competitor in the business-services market. In the present environment, however, it is hard to see how AT&T is going to raise the money to buy anything.

It is these sorts of “doom loops”, says Bill Bane of Mercer, a consultancy, that prevent investors from seeing the bottom for the telecoms industry. Shareholders greeted this week's news by dumping telecoms shares more enthusiastically than ever. Two things could change that. One, says Mr Bane, is if the fibre-optic capacity glut turns into a supply shortage. Although Enron made markets in it, fibre-optic backbone is not really a fungible commodity. Customers who want to send data from New York to London cannot use the pipe that goes to Washington, DC. That leaves any pair of destinations vulnerable to a capacity shortage.

Also forgotten in the current industry rout, says Mr Bane, is that demand for fibre-optic cable is growing by 75-150% every year. Mr Bane foresees a scenario in the not-too-distant future in which big companies find that their delicate, just-in-time, global electronic supply chains seize up. That will cost them huge sums of money, prompting them to buy or lease their own private, global fibre-optic networks from the telecoms companies. This, of course, would tighten the supply squeeze. Prices would soar. If it were still around, WorldCom might then once again be worth hundreds of billions of dollars.

The other possible outcome is that WorldCom, AT&T and other telecoms companies that serve business customers are absorbed into the Baby Bells, the local telephone operators that the regulators hived off from AT&T in 1984. These bureaucratic, sleepy near-monopolies have found favour with investors recently. America's regulators and antitrust officials have, until now, viewed their expansion into other markets with caution. After its turbulent experiments with deregulation, however, America craves stability from its all-too-excitable telecoms companies. The Baby Bells could certainly supply that.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Vivendi

Lip sink

Jun 27th 2002
From The Economist print edition

What Messier said, and what Messier did

ANOTHER week, another bullet in the chest for Jean-Marie Messier, Vivendi's troubled boss. This time it was the decision on June 25th by Bernard Arnault, a long-time ally and head of LVMH, a luxury-goods group, to quit Vivendi's board—just hours before a board meeting at which Mr Messier's own credibility was on the line.

Mr Arnault's departure came after Vivendi's shares had sunk by 23% in one day, on top of the 60% loss that they had already sustained this year. Analysts now talk freely about a "Messier discount": the man who built up the sewage-to-Hollywood group has become more of a liability than an asset. What can explain this? Try strategic vacillation, mixed with a chronic inability to match words to deeds.

The Messier discount

Jan 01	"In the US, Vivendi Universal will expand through commercial agreements, not mergers" (*BusinessWeek*)
Jun 01	Acquires Houghton Mifflin for $2.2 billion
Oct 01	"We don't need any significant acquisitions" (to *The Economist*)
Dec 01	Spends $10.3 billion on entertainment assets of USA Networks and $1.5 billion on stake in EchoStar
Sep 01	Says he will cancel 33m shares, or 3% of Vivendi's share capital
Jan 02	Sells the 33m shares instead
Jul 01	Announces plan to merge Telepiu with NewsCorp's Stream
Feb 02	Says he will now buy Stream from NewsCorp
Jun 02	Announces deal to sell Telepiu to NewsCorp instead
Dec 01	Says Vivendi will keep its 63% holding in Vivendi Environnement on a "lasting basis"
Jun 02	Announces plan to reduce holding to 40%

Source: *The Economist*

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

OPEC and Russian oil

Slush money

Jun 27th 2002
From The Economist print edition

If it is to be a counter-balance to OPEC, Russian oil needs more investment

Get article background

OPEC agreed at its meeting this week to maintain its production ceilings, which are likely to keep oil prices high for a while. The cartel's decision puts the spotlight on Russia, which is now producing roughly as much oil as Saudi Arabia, about 7.4m barrels a day. Although outside OPEC, Russia is now the world's second-largest oil exporter. This continues to raise the West's hopes that an escape from dependence on oil beneath the sands of Arabia might lie in the slush of Siberia.

Not in the long term, at any rate. Russia has only about 5% of the world's oil and less than one-tenth of the reserves of the Middle East. But in the short term Russian oil could indeed help to push down OPEC prices and weaken the cartel. To keep the country's flow of oil at current levels, however, let alone to raise it, Russian oil firms need to invest a lot more in exploration. For this, though, they are hoping for (relatively cheap) foreign money.

Russia's notoriously corrupt business environment has been a huge deterrent to potential foreign investors. But there are signs of improvement, as Russian firms take steps to upgrade their management. On June 27th shareholders in Russia's largest oil company, Lukoil, approved the appointment of two new board members, both foreigners: Mark Mobius of the Templeton Fund, and Richard Matzke, a vice-chairman at Chevron Texaco. The move should improve Lukoil's less than sparkling image. The company's vice-president, Leonid Fedun, says it will also improve the way the company is run.

Lukoil has been trying to catch up with its smaller rival, Yukos, considered the country's most westernised oil company. Yukos already has five foreign directors on its board and numerous foreign managers. On June 19th, in the run-up to a stockmarket listing in either London or New York scheduled for this autumn, the company disclosed who its main Russian owners were. Mikhail Khodorkovsky, the chief executive, called this a “most painful” step—maybe because it revealed that he is worth an unlikely $7.6 billion. Such a rare moment of transparency should put pressure on other oil firms to follow suit.

To their credit, for some time now the biggest Russian companies have been releasing profit reports that meet American accounting standards (yes, they're that good). Things were far worse a couple of years ago, when the oligarchs who control Russia's oil industry held foreign investors in scant regard. BP, for example, had to write off a $200m investment in Sidanco after a questionable bankruptcy ruling. But this year, the British oil company did a volte-face. In April, it boosted its stake in Sidanco, putting up an extra $375m and gaining management control. BP says that new bankruptcy laws and greater transparency have persuaded it to try again.

The need for investment in the industry is all too evident. Still burdened by the legacy of the Soviet past, Russian oil companies have too many rickety refineries and antiquated pumps. In churning out more than 7m barrels a day, the country is producing at full throttle. Saudi Arabia, on the other hand, still has about 3m barrels a day of spare capacity. Julian Lee, an analyst at the Centre for Global Energy Studies, says that the increase in Russian production, from 6m barrels in the late 1990s, is not sustainable. He says that it was achieved by jacking up output at existing wells, rather than by investing in the exploitation of new fields. To maintain these output gains, he says, the industry needs billions of dollars of investment.

High oil prices are working in Russia's favour. Because of hefty transport costs, Russian oil is relatively expensive to bring to market. At present prices, margins are high enough both to make Russia's oil

barons more friendly to foreign investment, and to make foreign investors inclined to accept their hospitality. The more they invest, though, the more Russia will produce—and the greater the downward pressure on prices.

In Russia's notoriously unstable business climate, however, the country could easily veer back to the type of confusion witnessed in mid-June at one small state-controlled oil firm, Rosneft. Minority shareholders in the company, trying to make management changes, showed up with a gaggle of armed security guards to emphasise their point. Russia's oil industry is still not on very solid ground.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

BP in Indonesia

Sociologists before geologists?

Jun 27th 2002 | BINTUNI BAY, INDONESIA
From The Economist print edition

Oil companies don't choose the easiest places to practise social responsibility

AT FIRST, it reads like a film script. An oil multinational enters a remote rainforest in a disputed corner of an unstable country, where a brutal army confronts a popular independence movement. Throw in tribal politics, corrupt officials and hostile NGOs, and watch it all simmer.

But this is a true story about the British oil giant BP, which has been busy transforming a sleepy bay in Indonesia's restless West Papua province, formerly Irian Jaya, into a $2 billion gas plant. Construction of the onshore plant, which will convert offshore natural gas into liquefied natural gas (LNG) for export to Asia's energy-hungry markets, should start next year. The first LNG will be shipped in 2006 at the earliest.

BP has already sunk some $600m into the project, known as *Tangguh*, or “Invincible”. That includes costs incurred by Atlantic Richfield, the American oil company that discovered the gas and later merged with BP. Under its production-sharing contract with Pertamina, Indonesia's state-owned oil producer, BP hopes to recover its investment and more once the profits start to flow.

But *Tangguh* is about more than profits. It is a chance for BP to show that its much-trumpeted embrace of corporate social responsibility extends beyond the boardroom and into the boondocks. That is why the company has sent scores of sociologists, anthropologists and other clipboard-toting consultants into bayside villages to listen and learn from its local “stakeholders”. BP's base camp, a temporary set of wooden cabins, is dominated not by grizzled oilmen talking shop but by these new, Gap-wearing consultants, schooled in the language of “community development”.

It is a calculated risk by BP that it can grow in Indonesia without harming the reputation of the company and its brand. Indonesia is better known for crony capitalism than the kind of caring capitalism that BP wants to espouse. Environmentalists say that the company is taking care to minimise the impact of the gas plant on local biodiversity, which includes South-East Asia's largest intact mangrove forest.

But some locals are tiring of the attention and starting to ask when the development funds promised by BP will arrive. Villagers in Saengga, near the camp, sent journalists packing when they tried to eavesdrop on a recent powwow about BP's offer to compensate villages affected by the project. A few dozen villagers later staged a peaceful sit-in at the camp to protest against delays in settling the claims. BP says it wants to make sure that everybody agrees before it pays, hence the delay.

Less easy to control is the wider social and political impact of such a project on West Papua, a backward province that has bristled since it came under Indonesian rule in 1963. After Suharto's fall in 1998, West Papuans, who are ethnically and culturally distinct from most Indonesians, agitated unsuccessfully for independence.

West Papuans are suspicious of foreign resource companies. Freeport-McMoRan, a big American company quoted on the New York Stock Exchange, mines one of the world's largest gold deposits in West Papua. The success of Freeport's community relations can be measured by the thousands of policemen and soldiers that it uses to fend off locals disgruntled at having lost tribal lands.

Of course, BP knows a thing or two about operating in conflict zones. In 1997, it was criticised for using soldiers in Colombia to guard its pipeline against self-professed Marxist guerrillas. The result was a public-relations disaster that it does not want to repeat. But despite its best intentions in West Papua, BP's room for manoeuvre is limited. Indonesia's army sees its job as defending national assets, of which

Tangguh is one. BP says that it will not need soldiers billeted on the site—it is training a community-based force to stand guard. What worries human-rights groups is that the company's talk of social responsibility may be blunted by the need to keep pumping gas if things turn ugly.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

America's airlines

Pilot's cap in hand

Jun 27th 2002
From The Economist print edition

Expecting too much of the government

Get article background

AMERICA's airlines are heading for losses of around $4 billion this year, on top of the $7.7 billion (after federal aid of about $4 billion) that they lost in 2001. The bleak outlook will become clearer next month when the carriers report their second-quarter results. Weak traffic figures and even weaker ticket prices all point to continuing losses. An encouraging recovery in the first quarter of the year has faded, and the industry is struggling to make money on revenues that are down by a fifth on a year ago. A record number of 2,000 surplus aircraft are parked in the Mojave desert, half of them never to fly again.

This week United Airlines, the second-largest carrier, asked for government-guaranteed loans worth $1.8 billion under the rescue package set up after September 11th. The deadline for applications was June 28th. So far, America West, a regional carrier, has been given a loan of around $380m; a further five airlines besides United, including US Airways (the weakest of the major carriers), have bids in for $1.1 billion. The shares of US Airways fell by 19% on June 25th, after it had revealed that it would unilaterally defer payments on some aircraft.

When disaster struck last autumn, the biggest financial fear of the leading carriers was that the weaker ones would rush into Chapter 11 bankruptcy to stave off their creditors while they kept flying. When this happened several times in the 1990s, the offending carriers undercut their competitors and drove down fares. This time, the carriers turned instead to the government and were granted a two-stage package to compensate them for the shut-down of air travel. But the effect could still be the same as Chapter 11: uneconomic carriers kept in business. As Don Carty, chairman of American Airlines, acidly observed at a conference earlier this month, barriers to exit in aviation seem greater than barriers to entry.

Last autumn it was fashionable to compare the latest airline crisis with the one in the early 1990s. Then travellers returned very quickly after recession and the Gulf war. But the financial impact lasted longer: between 1990 and 1994, when recovery started, America's airlines lost over $12 billion. Now they are likely to lose almost as much in only two years, so the problem appears twice as big.

Getting business travellers back on board is being hampered by the “hassle factor”, as check-ins and transfers become slower and more complicated thanks to increased airport security. Carol Hallett, president of the Air Transport Association (ATA), says the hassle factor could be responsible for a loss of nearly $4 billion in revenues. At American Airlines, Mr Carty is re-examining the core of his airline's operating model. His predecessor Bob Crandall invented the “hub-and-spoke” network, after deregulation left airlines free to fly where and when they liked. The value of hubs is that an airline can serve a large number of destinations with a fraction of the aircraft it would need if all flights were direct. Other carriers following American's example led to waves of flights in and out of hubs at peak hours.

But the crisis has shown up weaknesses in this model. First, there is the practical problem that connections are now harder to make because of baggage and other security checks. Second, passengers are no longer prepared to pay as much as before. American's response is to move back to a “rolling hub”, which means spreading flights more evenly across the day. This is a nod to the economics of low-cost carriers such as Southwest, which run simple point-to-point services, relying on low fares to fill seats and getting about 20% more hours out of each aircraft per day. Although mainstream carriers are losing billions, Southwest stays in the black.

Mainstream carriers are lobbying for more sympathy from the government, on top of the bail-outs.

Through the ATA, they are complaining about increases in aviation taxes, security costs, insurance rates and so on, which they claim make the difference between loss and profit—around $4 billion. The ATA even claims that the federal government taxes flying more heavily than cigarettes. But to campaign for tax breaks even as it holds out its hand for more subsidies begins to look greedy. A more convincing response to the crisis would be an attempt to bring the industry's pay into line with its productivity.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Customer loyalty

Caveat vendor

Jun 27th 2002
From The Economist print edition

Not all loyal customers are profitable—or vice versa

WHEN Welf Ebeling, chief operating officer for The Leading Hotels of the World group, ran the Breidenbacher Hof, a swanky hotel in Düsseldorf, he noticed that some of his most loyal customers constantly telephoned the concierge with impossible requests. These “attention-seekers” were often less profitable than other loyal customers who made fewer demands but spent more.

Mr Ebeling's observation fits neatly with the thesis of an article in July's *Harvard Business Review* by Werner Reinartz and Viswanathan Kumar. The authors, both marketing professors, argue that companies tend to assume that loyal customers are cheaper to serve and willing to pay more than others, and also good at attracting new business. But, after studying a high-tech corporate-services provider, a French grocery group, a German broking house and an American mail-order company, the authors found little correlation between loyalty and profitability. Not only are loyal customers sometimes unprofitable; companies can earn profits from disloyal ones.

The work builds on a distinction by an earlier guru, Frederick Reichheld, whose widely read books on loyalty speak of “barnacles”, who cling to the ship but slow its progress, and “butterflies”, who flit past. Mr Reichheld based his observations mainly on interviewing executives; the new work is founded on observing the behaviour of customers.

Far from being cheaper to serve, says Mr Reinartz, loyal customers of the high-tech company in his sample cost more: the company gave them special advice and help. Nor were the stalwarts willing to pay more: the mail-order company's regulars paid less than newer customers for some goods. Nor did they necessarily spread the word: interviews with regular customers of the French grocery chain found that their attitude to the company mattered more than their staying power.

The trouble is that targeting customers often goes against the grain. Mr Reichheld, who is a consultant with Bain, argues that “companies have a difficult time not treating everybody right”. He cites eBay, an online auctioneer, as a company that has been slow to use excellent customer data to give the most profitable customers the best service. Mike Moran, commercial director for Toyota GB, says that his company too takes a democratic approach. After all, today's Corolla driver may one day buy a Lexus. Even when companies know which customers are worth most to them, targeting calls for caution.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Biotechnology

Martha and the market

Jun 27th 2002 | SAN FRANCISCO
From The Economist print edition

Will the perpetual "next big thing" ever be more than that?

THE story of ImClone, a biotechnology firm with a promising drug for treating cancer, is hurting an industry with a 30-year history of raising investors' hopes only to dash them. ImClone's troubles started in December when the federal Food and Drug Administration (FDA) withheld approval from Erbitux, its drug, because of shortcomings in its clinical trials. A note of scandal was added when it emerged that various friends and relatives of Samuel Waksal, chief executive of ImClone—among them Martha Stewart, America's doyenne of household management—had sold their shares in the firm just before the FDA's decision was published. Mr Waksal was arrested for insider trading on June 12th and Ms Stewart's dealings are still being investigated.

The ImClone scandal is the most exotic in a string of bad news from the biotech industry. In January, shares in Elan, an Irish drug maker, sank after accusations that it had published misleading accounts for its joint ventures with biotech firms. Earlier this month, Genentech, one of the oldest and largest biotech firms, lost a lawsuit over the rights to research done at a hospital south of San Francisco, to which it now has to pay $500m.

Far more than scandal, however, biotech has suffered from a succession of setbacks in drug development. Several other promising drugs besides Erbitux have been rebuffed by the FDA, or failed in the late stages of clinical trials. For instance, Picovir, a cold medicine developed by Viropharma, was turned down by the FDA in March, and in May Zamyl, a treatment for leukaemia made by Protein Design Labs, failed to show any better results than a placebo in trials.

After briefly going back into biotech late last year—the anthrax attacks in September raised interest in defences against biological terrorism—investors have once more abandoned it. Indices of biotech shares on both Nasdaq and the American Stock Exchange have dropped by 50% since the start of the year—far more than markets overall. The total market capitalisation of public biotech firms today is half what it was in February 2000. The prices of shares in the 13 firms that went public in 2000 are, on average, 75% lower than when they were first offered.

Despite the gloom in public markets, however, private investment continues. So far this year $7.2 billion has flowed into the industry, compared with $3.8 billion in the same period last year. Some of this is venture funding by investors who believe the industry's claim that this time round it really is on the brink of widespread success. Some of it comes from the pharmaceutical industry, which is desperate for new products to replace the lucrative drugs for which patents are soon to expire. The University of Maryland estimates that the annual revenue from drugs that will go off patent this year is $2.8 billion. Next year the figure will be $6 billion.

The hope for biotech rests on the surge in scientific data generated by new technology. Automation, miniaturisation and information technology have changed the rate at which biological experimentation proceeds. Instead of five compounds a week, a researcher working today with pipette-wielding robots can make 5,000 chemical compounds. This has raised the efficiency of every step of drug development—but it has not yet improved the success rate. Making sense of the prolific range of new compounds produced by new methods still requires clinical testing, and this can yield surprises. "Bad" news from clinical trials so far this year outweighs "good news" by almost two to one, according to Burrill and Company, an investment bank specialising in life sciences.

There remains a large element of uncertainty in drug development, and to help reduce this the industry is forming alliances and partnerships. Mergers between biotech firms are creating organisations that start

to rival the old pharmaceutical companies in scale. Millennium, for example, started in 1993 as a genomics company, but through acquisitions it has become a vertically integrated firm with a market capitalisation of $4 billion. The merger of Amgen and Immunex creates a firm similar in scale to the bottom rung of the big pharmaceutical firms.

Biotech firms once had to look to big pharmaceutical companies for the benefits of scope. In 1985 Amgen, too short of funds to develop a drug alone, sold to Johnson & Johnson the marketing rights to Procrit, which became an immensely profitable drug for treating anaemia. (Amgen has since been suing to reclaim some of the rights.) Now biotech firms have more money and can strike harder bargains, and do so later in the development process, when the price will be higher.

They may soon not need to go into partnership with a big pharmaceutical firm at all. Reaching general practitioners still takes the marketing power of a big firm with a large salesforce, but many biotech products are aimed at specialists, who are fewer in number. To market a specialised cancer drug in America might require reaching 10,000 oncologists, which is within the means of a large biotech firm without the assistance of a bigger partner.

A few biotech firms are already within shouting distance of “Big Pharma”. A dozen have products already generating revenue. But over 300 others are still afloat on hope and promises. The scientific and technological progress of the past three years give good grounds for that hope, but the steady beat of bad news is a reminder to treat all promises with scepticism.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Face value

Merrill's new bull

Jun 27th 2002
From The Economist print edition

With Wall Street down and his firm under fire, why is Stan O'Neal so optimistic?

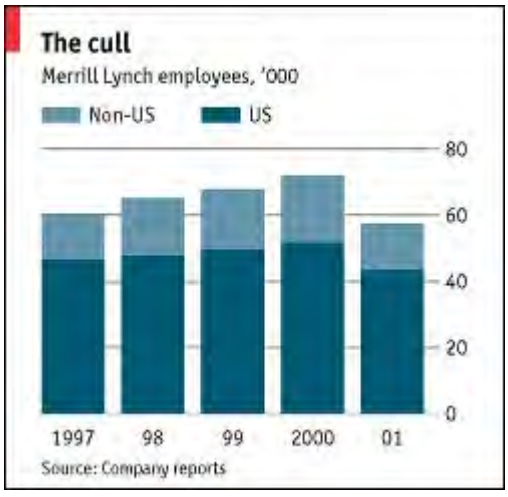
"I AM not a saviour," says Stan O'Neal, who now in effect runs Merrill Lynch and will formally become its chief executive at a date to be announced soon. "We have a wonderful business, a wonderful franchise. We just need to be repositioned." But many on Wall Street think that a saviour, not a repositioner, is just what Merrill now needs. Is Mr O'Neal right to be so sanguine?

Merrill Lynch has suffered, along with other investment banks, from the collapse of the lucrative merger-and-acquisition and equity-underwriting businesses. But the firm famous for introducing the man on the street to the stockmarket has also been embarrassed by revelations that its research analysts disparaged Internet firms as "crap" while simultaneously urging retail customers to buy their shares. The firm paid out $100m to stop this matter going to court, but serious damage has been done to its reputation for trustworthiness and to its motto, "Bullish on America".

The case may also harm Merrill's crown jewels, a vast network of American retail clients who have bought many of the securities underwritten by its investment bankers. Nor was its image helped by this week's suspension of one of its brokers in connection with an escalating insider-trading scandal involving Martha Stewart, an American icon of style, and the shares of ImClone, a frustrated biotechnology company.

Yet Mr O'Neal is anything but downcast. Of all the bosses of big Wall Street firms, he has perhaps the most instantly impressive mix of charm, energy and clarity of purpose. This 50-year-old black Alabaman, a grandson of a slave, joined the firm in 1986 from General Motors, after gaining his MBA from Harvard. He has few of the characteristics traditionally associated with Merrill Lynch employees, and is a stark contrast to the firm's present boss, David Komansky, a big, bluff postman's son from the Bronx who has spent his entire working life in the business, much of it as a broker.

Mr Komansky is never happier than when he is spending time with brokers and customers. Mr O'Neal is said to prefer plotting strategy in the executive suite. Like several of America's new breed of post-bubble bosses, he is reading Robert Caro's bestseller, "Master of the Senate: the Years of Lyndon Johnson", a book full of clues to how a leader can achieve his strategic goals in an intensely political environment.



Much depends on whether Mr O'Neal's essential differences prove a help or a hindrance. For instance, although he ran the firm's broking business for 18 months, he never actually worked as a broker. This may free him from any sentimental loyalties. But equally, it may make it harder for him to motivate the 15,000-strong "thundering herd" of brokers, as he seeks to transform the way they conduct business.

Culling the thundering herd

So far, Mr O'Neal has shown himself to be a ruthless executor of strategy. Within weeks of taking operational control last July, he had forced out many erstwhile rivals for the top job. He pressed on with the cull despite the massive disruption caused by the September 11th attacks, which forced the firm temporarily to abandon its home next to the World Trade Centre.

He slashed Merrill's workforce in late 2001, even as other Wall Street bosses dithered over similar cuts. They were worried about the impact on employee morale, already upset by terrorism, and the risk that large lay-offs would cause them to miss out on the good times if they returned soon. Ironically, Merrill was itself much criticised for retrenching too fast after the short-lived market crisis of late 1998. Even so, Mr O'Neal laid off thousands of workers, reducing the firm's staff to 55,000 from a peak of 72,000, getting a hostile press for what his rivals now concede was an astute move. He also shut broking operations in Canada, Japan and South Africa, and broke off a joint venture with HSBC.

Did his decisive grasping of the reins upset Mr Komansky? As one insider says, he has “broken a lot of eggs round here, and you don't do that without making enemies”. But if they have fallen out, it may be to Mr O'Neal's advantage: it seems likely that Mr Komansky will depart sooner than the previously scheduled 2004.

Mr O'Neal's strategy is twofold. In investment banking, it is to cut back and wait for the stockmarket (and thus, with luck, M&A and underwriting) to pick up. “Gearing up is not that difficult” as and when the market picks up, he says, adding that today's depressed conditions are not as bad as those of the early 1990s. In stockbroking, meanwhile, he plans a bigger revolution: changing the payment model away from commissions to annual fees based on assets under management, and focusing increasingly on wealthier clients. Merrill has been edging this way for several years, but Mr O'Neal plans a rapid acceleration. Given the current unpopularity of share trading among ordinary investors, it is easy to see the appeal of reducing dependence on transaction fees. It is harder to see its appeal to the brokers, however. The word on the Street is that you can now lure anyone you want away from Merrill.

Even less certain is whether asset-based fees will appeal to customers. The bank may dream of harvesting a predictable stream of fees in perpetuity. And at least brokers will no longer have an incentive to “churn” (trade excessively). Yet customers may still wonder what exactly they are getting for their money that they could not get more cheaply elsewhere.

Mr O'Neal is probably right that Merrill is “stronger now than we were six months ago”. But however sensible his strategy, to be bullish on Merrill you have to be bullish, long-term, on shares. In today's markets, that is not easy. Even Mr O'Neal's optimism cannot make it so.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS
PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Privatisation in Europe

Coming home to roost

Jun 27th 2002 | PARIS
From The Economist print edition

In most of Europe, privatisation has been more about raising money than promoting enterprise

A DECADE or so ago it seemed that privatisation would provide the cure for part of continental Europe's economic ills. Governments of all hues were following the trail blazed by Margaret Thatcher in Britain after 1979. By shifting assets from public-sector control to the disciplines of private ownership and the capital markets, huge economic efficiencies could be unleashed—and, not incidentally, large sums of money could be raised for state coffers.

The effects were dramatic. In Britain, companies in public ownership accounted for 12% of GDP in 1979, but only around 2% by 1997, when Tony Blair took office. By then, even the Socialist government in France had accepted privatisation (though it quibbled about the label). The 1997-2002 Jospin government presided over bigger sales than had its right-wing predecessors. It launched a $7.1 billion initial public offering of France Telecom in October 1997, and made a $10.4 billion secondary offering a year later.

Elsewhere in Europe, privatisation had also spread. Germany sold several assets, including successive tranches of Deutsche Telekom. Spain and Portugal have been eager privatisers: the former completed its sale of Iberia, the national flag carrier, last year. And privatisation has become not just a Europe-wide but a worldwide phenomenon. It accounts for 30 of the 35 biggest share offerings ever seen.

Today, however, the momentum in Europe has slowed. In several countries, including the Netherlands and Germany, planned privatisations of infrastructure—such as postal systems, airports and railways—have been postponed or cancelled. In Italy, Silvio Berlusconi's government, which was expected to be an enthusiastic privatiser, has made almost no progress. It has been stymied by debate over the political fall-out from further sales. In France, the election of a strong right-wing majority in parliament could give new impetus to a programme that stalled two years ago, but there is still deep political concern that the whole policy may backfire.

The lack of activity is partly due to a subtle but noticeable shift in European attitudes to privatisation. Britain, the pioneer, is seen as having gone too far with its sale of the railways and its questionable “private finance initiatives” in the country's health service and transport industries. The partial sale of the air-traffic-control system was also controversial.

If privatisation has found its limits in the country that pushed it

A symbolic moment was the British government's decision last October to place Railtrack, which owns the rail network, into bankruptcy—in effect, renationalising it. There is also the postponement of plans to privatise Britain's financially troubled Post Office, the last big and important state-owned industry in the country. The question this raises in the rest of Europe is: if privatisation has found its limits in the country that pushed it furthest, should others be more leery of it in future?

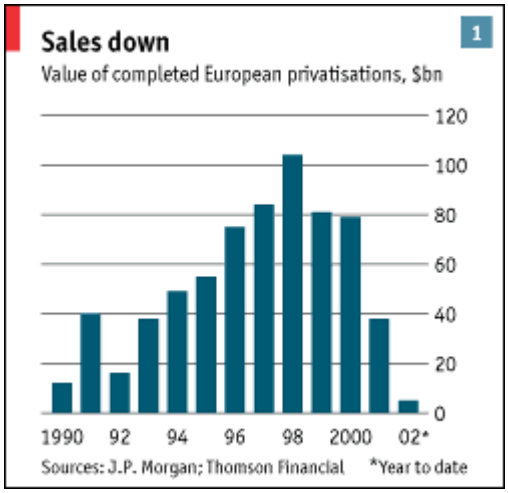
furthest, should others be more leery of it in future?

Big-ticket items

The rate at which state assets have been sold has certainly slowed since the late 1990s. In 2001, according to a forthcoming article by Ladan Mahboobi of the Organisation for Economic Co-operation and Development (OECD), a modest $20.6 billion was raised from privatisations in OECD countries, roughly three-quarters of it in Europe. In contrast to previous years, no single deal raised more than $5 billion.

Paul Gibbs, an analyst with J.P. Morgan, uses a different methodology to calculate European privatisation receipts. He counts money actually raised in a given year, whether or not the underlying deal was announced earlier. Between 1990 and 2002, according to his figures, total receipts in Europe were an impressive $675 billion. But he reckons that only around $38 billion flowed into government coffers last year, from 103 separate deals, sharply down from the $104 billion raised in the peak year of 1998 (see chart 1).

This slowdown was not primarily caused, as it has been in Britain, by governments running out of things to sell. It has three rather different reasons: first, weak stockmarkets; second, growing investor scepticism; and third, questions among investors and policymakers alike as to what constitutes true privatisation.



Weak stockmarkets have called into question the prospect for further sales, even though more deals are seen as a good way to restore public finances in countries (such as France, Germany and Italy) that have looming budget deficits. As arguments at last week's EU summit in Seville showed, these deficits are a growing threat to the EU's stability and growth pact. Privatisation proceeds are not supposed to count for stability-pact purposes, but there are ways round that prohibition.

The bursting of the market bubble in telecoms and technology shares has hit privatisation prospects hard, because such issues were among the largest. Companies such as Deutsche Telekom and France Telecom are so big that they could not be sold in a single transaction. Unloading new tranches of their shares was easy when prices were sky-high (as they were until mid-2000), but it is near-impossible now that those prices have crashed.

The dilemma is illustrated by Enel, Italy's biggest electric utility. The government sold 34.5% of it in November 1999, raising $18.7 billion. The company then went on an acquisition binge, paying high prices to buy into telecoms. Although investors have recently favoured utility companies, Enel's shares are now 30% lower than when they were floated. Last year, the government postponed the planned issue of a second tranche of shares that was due to raise billions of dollars. Until the share price recovers, the issue, itself a contributor to the price weakness, will remain on hold—and Enel will stay majority state-owned.

Another change in stockmarkets has adversely affected partially floated companies. Many investors now favour indexation—ie, they buy shares in proportion to companies' weights in a stockmarket index. Over the past 18 months, however, compilers of most country and pan-European stockmarket indices have changed how they calculate the weightings of companies that are partially floated. Only the traded portion, known as the “free float”, counts towards the market capitalisation that sets the share's weighting. Demand for shares in companies with less than 100% of their shares floating freely—many of them former state-owned telecoms companies and utilities—has thus fallen, putting more downward pressure on already weak prices. (The only big European country that does not use the free-float method for its index is France.)

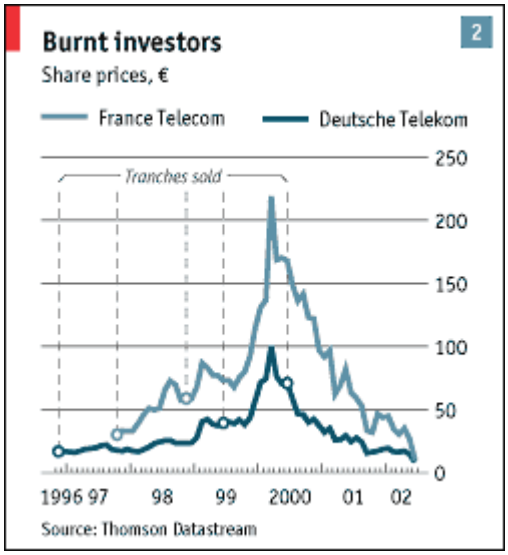
Retail investors have good reason to be more sceptical about shares in privatised companies, many of

which have brought poor returns. The idea of aiming share offerings at individual investors, rather than at a few big institutions, was embraced enthusiastically in Europe. The Italian treasury, for instance, saw it as a way to by-pass the traditional system of opaque share placements by banks. In Germany, the Deutsche Telekom sale in 1996 was seen as a big step towards developing an equity culture that might help to solve the country's looming pensions crisis.

Telecoms turmoil

The trouble is that several of these flagship sales have now turned sour. Investors who bought shares in France Telecom and Deutsche Telekom, for example, have been so burnt that they may not buy again for some time to come (see chart 2). This raises the question of what governments can do to rebuild investor confidence. In the meantime, they might have to find alternative ways to reduce their stakes. The Italian government, for example, is considering convertible-bond issues that raise money and hold out the prospect of investors eventually converting their principal into shares. This might be one way to escape its Enel dilemma.

In France, the newly elected right-wing government, with Jean-Pierre Raffarin as prime minister under President Jacques Chirac, has more privatisation options than most. Francis Mer, the new finance minister, has hinted that stakes in Air France and Thales, a defence and electronics company, could be sold, to raise up to *euro*5 billion ($4.9 billion). Last week, union leaders said the government was also considering selling half of its stake in Gaz de France, worth over $7 billion. And the state is sitting on a residual 10% stake in Crédit Lyonnais, a bank that was originally privatised in 1999.



Mr Gibbs of J.P. Morgan says that the government will probably try to make a case for each potential candidate based on its business. For instance, Crédit Lyonnais could be disposed of in a trade sale to another financial institution, rather than sold on the stockmarket. Telecoms sales are ruled out by market conditions, but a sale of Air France could be predicated on the airline's turnaround in recent years.

France is lucky because some of its biggest state-owned assets are utilities, now much favoured by investors. On top of Gaz de France, there is Electricité de France (EDF). The state-owned electricity monopoly is one of Europe's biggest companies, worth some *euro*60 billion and a prime candidate for a multi-tranche privatisation.

The problem with an initial offering is that it would have to be accompanied by a statement of intent on future sales, reducing the government's role in the business still further. But there is a big question-mark over the willingness of even a right-wing government to sell more than 49% of the company. Objections are based partly on the issue of EDF's nuclear liabilities. But there is also a strong belief, by no means unique to France, that certain industrial holdings remain “strategic”. Had the left won the recent election in France, it would certainly have pledged to keep more than 50% of EDF.

The idea of strategic holdings partly explains why only a small minority of privatisation deals has involved the complete retreat of government from the business being sold. Strikingly, no fewer than 24 of Europe's biggest companies by market capitalisation have some shares owned by a government. This suggests that privatisation is not always as clear-cut as it seems.

Consider the question of management control. The OECD reckons that governments in Western Europe alone have raised more than $400 billion from asset sales since 1990. But in many cases they have retained ownership control by selling only some of the equity via a flotation, or by retaining so-called “golden shares” that give veto rights against a takeover of the company.

On June 4th, the European Court of Justice issued a ruling against golden shares, decreeing that they should be allowed only in tightly defined circumstances. The European Commission had brought the case on the grounds that such shares were a restriction on the free movement of capital within the European Union. Last week, the commission said it might take countries such as Germany and Italy to court because of the golden shares they still hold in quoted companies.

But governments have many other ways of meddling. In Italy, Mr Berlusconi has recently imposed new managers at Enel and Eni, Italy's former state-owned electricity and oil monopolies respectively. The previous government's position was that it acted merely as a financial investor in these companies. But when the new government wanted to replace managers, it showed that the state was in reality a dominant owner. Minority shareholders might approve of the new managers, especially at Enel where Franco Tato, the outgoing boss, was a controversial figure. But in fact they had no say in their selection.

Italy has always had an ambiguous attitude to privatisation. Although more than $110 billion has been raised from sales over the past decade, successive governments have been wary of ceding full control. Two years ago, Confindustria, Italy's federation of industrialists, published a report on the effect of privatisation on the Italian economy. It found that only about one-third of the headline figure raised from asset sales was fully freed from state control.

In the mid-1980s Franco Reviglio, then chairman of Eni and a former finance minister, openly described privatisation as a good way of raising cash without losing control. That attitude is widespread even among Italy's numerous and powerful regional and municipal utilities. In Trieste, for example, a right-wing council has caused controversy by interfering in the affairs of the partly floated local utility.

Control, not ownership

Academic studies suggest that the role of state-owned enterprises in rich countries has shrunk from around 8.5% of GDP in 1984 to less than 5%. But the tentacles of government are far more entwined in business than these figures suggest. France offers perhaps the best example. It has had three big waves of privatisation, but the state still owns stakes in numerous companies, many of which are listed on the stockmarket. The stakes include 55.5% of France Telecom, 56% of Air France, 33% of Thales, and so on. Seven of France's largest 40 companies by market capitalisation have an important part of their equity owned by the state, including Renault, of which the government still owns 25%.

The French state also owns large non-listed companies across a wide array of industrial sectors, from chemicals to transport to energy. The biggest is EDF, already one of Europe's most controversial companies because it has expanded so aggressively outside France (it is now the fourth-biggest electricity company in Britain, for instance) even while remaining a protected monopoly at home. It has been at the centre of rows over the fair deregulation of Europe's energy markets. The rows are intimately linked with privatisation.

Economists and observers are divided as to whether privatisation has been less crucial to European structural reform than the gradual deregulation of such businesses as telecoms and energy, with the ensuing push this gave to competition. In Italy, which was slow to adopt privatisation, but then became an enthusiastic proponent in the mid-1990s, the effects of deregulation were further boosted by a restructuring of the banking system. State-owned banks were sold so as to sever much of the link between the state's finances and loans to industries. Officials at the treasury say this was a vital precursor to privatisation.

But the introduction of competition causes problems for state-owned companies that are due to be sold. Ms Mahboobi of the OECD comments that “competition and privatisation are sometimes uneasy policy bedfellows.” European competition officials have often pointed to EDF as an example of this tension.

EDF and the French government, its owner, would be happy for its domestic market to stay closed to competitors for as long as possible, in defiance of European rules. That way it can use its monopoly profits to cement an unassailable pan-European position. Already its forays into Spain and Italy have aroused strong opposition in those countries; and France's reluctance to liberalise its electricity market has been a source of friction with its European neighbours.

Similarly, Italy's Enel has been strongly criticised for using monopoly electricity profits to buy its way into the telecoms sector in pursuit of a dubious “multi-utility” strategy. Critics say the Italian government failed in 1999 to combine privatisation with coherent deregulation of the electricity market. In Britain, the two were done together and the industry was broken into component parts that were designed to compete with each other. Enel remained an integrated company and, although it is selling some generating capacity as part of a belated and limited deregulation, it is well entrenched as the dominant force within Italy.

In continental Europe, privatisation has too often been a phrase that has disguised economic reality

Arguably, only Britain has accepted the true retreat of the state from its biggest industries. Even there, this was done initially with caution. Golden shares were widely used, for example, to block the threat of rapid takeovers in the utilities sectors. In continental Europe, privatisation has too often been a phrase that has disguised economic reality. Governments have raised money, either for their own coffers or to boost the balance sheets of state-owned companies. But they have rarely forfeited control and have remained inclined to meddle.

Viewed positively, this leaves plenty of scope for future improvement. Governments have lots of room, as well as the budgetary necessity, to reduce further their interests in big companies. In time they might even give up control and leave companies to fend for themselves in emerging pan-European markets. The problem is that this is unlikely to happen quickly. Healthier stockmarkets are one prerequisite. But more urgently required is a political willingness to accept that, if it is to yield its fullest benefits, privatisation has to imply loss of control as well.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

WorldCom and financial markets

Another scandal, another scare

Jun 27th 2002 | NEW YORK
From The Economist print edition

But is there a danger of over-reacting?

Get article background

IN THE paparazzi swirl of New York, it is actors, models and socialites who are the usual targets. It is a sign of the times that Jack Grubman, a mere analyst at Citigroup's Salomon Smith Barney, this week found himself tailed by a television correspondent barking out questions; he had played a crucial role in promoting WorldCom and other upstart telecoms companies. “Why are you harassing me like this?” he said as he fled down Fifth Avenue. “I'm as shocked about this as anyone else.”

WorldCom's sorry state had become clear in recent months, and its shares had fallen from a peak of over $60 to below $2 a share, a level that Mr Grubman had already said was still too high. So why did financial markets around the world react so badly to the news on June 25th of a $3.8 billion fraud at the company?

Stockmarkets around the world fell, presumably in anticipation that American markets would later plunge. Before New York opened, Japan's Nikkei, Germany's Dax and France's CAC 40 each fell by over 4%. The dollar also fell, almost touching one-for-one parity with the euro for the first time since 1999 (see article). In the event, American stockmarkets did open lower, though not by as much as overseas markets had feared.

It is still possible that WorldCom's fraud will prove the straw that broke the stockmarket's back. For a start, plenty of other reasons suggest that shares (and the dollar, indeed) remain overvalued. The markets have been edging lower anyway in recent weeks, and perhaps needed a catalyst to move decisively to levels that make more sense in terms of fundamentals. American shares have been trading at an average price/earnings ratio well above historic norms, and could easily trade one-third lower without looking under-priced. The same is probably true of some of the European markets.

WorldCom may also mark the point when investors, particularly foreigners, finally lose all confidence in American accounting—confidence that had already been badly dented by a series of scandals, headed by Enron. WorldCom fired its auditor, Andersen, after it was discredited by the Enron affair; internal auditors uncovered the fraud and alerted KPMG, the new external auditors. Plenty of firms that fired Andersen will find that their new auditor will do its best to prove it is no soft touch.

Reasons to be cheerful

Perversely, what is happening to WorldCom might actually be a reason for investors to be more confident about corporate America. After all, those responsible for the fraud at the company have been driven out, as have overweening bosses responsible elsewhere for shortcomings at firms that include Enron, Global Crossing, Adelphia and Tyco. This suggests that boards and institutional shareholders may even be getting their corporate governance up to scratch at last. Likewise, now that Andersen will go out of business by the end of the summer, following its conviction for obstructing justice in the Enron case, other audit firms now have a much better idea of what is expected of them.

WorldCom's fraud will also add impetus to the process of improving the regulation of audit and accounting that was already under way. The Securities and Exchange Commission (SEC), which until lately had often seemed behind the curve, was quick to speak out this time. It promised to investigate the accounting improprieties of “unprecedented magnitude”; and it briskly charged WorldCom with fraud. Its efforts to raise the quality of accounting standards set by the Financial Accounting Standards Board (FASB) will gain extra urgency from the WorldCom fiasco, even though there is not much that even the best standards can do about a firm determined to act fraudulently.

Auditors are supposed to spot fraud, and the SEC has already published a plan for better regulation of auditing, in case Congress fails to pass legislation that delivers it. The SEC plan has been criticised for being too soft, but WorldCom's fraud makes Congress more likely to act. Tom Daschle, the Democrat leader of the Senate, now promises an early vote on an auditing bill proposed by Senator Paul Sarbanes, which is expected to pass with big bipartisan support. It calls for a much tougher “audit cop” than does the SEC, proposing, for instance, to set up a full-time independent board of audit regulation. It also calls for restrictions on audit firms doing non-audit business.

Whether such a tough bill will become law depends on whether audit reform remains a hot political issue when the two houses of Congress put together a reconciled bill, probably in September. Opponents, such as Senator Phil Gramm, a Republican, concede that delaying a decision is their best strategy.

After the initial excitement of the Enron hearings had died down, Washington had seemed to be losing interest in cleaning up corporate America. The war on terrorism, health care and education all registered higher on the public's list of concerns. Now, the reaction to WorldCom's fraud—including a pledge by President George Bush to launch a federal investigation into the firm's “outrageous” behaviour—suggests that polling data may show sufficient public concern for Washington to need to do something to restore confidence; mid-term elections, after all, are in November. Wall Street's bosses have also started to speak up in favour of regulatory reform, including Hank Paulson, chairman of Goldman Sachs. The combined impact of lawsuits, regulatory investigations and public opinion appears to make change inevitable, and Wall Street wants to help shape it.

The Sarbanes bill looks to be what is needed—though it could usefully include among its provisions the mandatory rotation of auditors. Still, it is hard to predict whether Washington's involvement might go very much further. The last time Congress really got to grips with cleaning up abuses in corporate America and on Wall Street was in the 1930s. The effort produced a great many headlines and a lot of legislation, some that improved the workings of American capitalism, but some that made it less efficient. Will today's politicians do any better? How sad it would be if, just as market forces and existing regulators were starting to restore integrity to accounting and to the boardroom, politicians riding the bandwagon were to mess the whole thing up.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Latin American markets

Spreading risk

Jun 27th 2002 | WASHINGTON, DC
From The Economist print edition

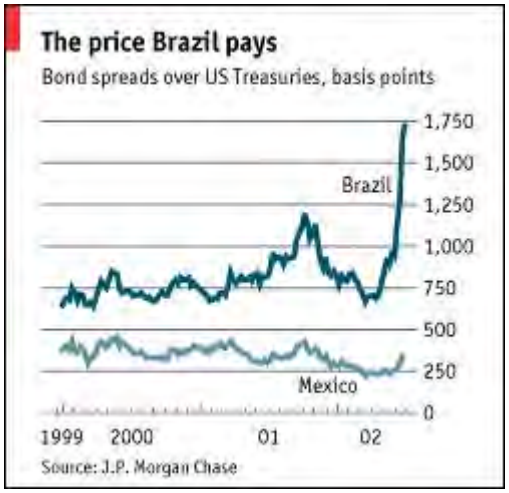
Is Brazil about to cause the next emerging-market eruption?

EPA

Anxious moment

A MORE risky prospect than Nigeria? That is how the bond markets saw Brazil this week, much to Brazilians' astonishment and disgust. In recent days, the risk premium on Brazil's bonds has climbed above Nigeria's. Among the main emerging markets, it is now second only to the risk premium in Argentina, which defaulted on its debts in December. The contagious way in which worries appear to be spreading through Latin America bears an eerie resemblance to the financial crises of the late 1990s.

Brazil is at the epicentre. The spread between Brazilian bonds and American Treasuries leapt to 17 percentage points on June 26th (see chart). The *real* has fallen sharply, as investors fret about a leftist candidate, Luiz Inacio Lula da Silva, winning the presidential election in October. A victory for Mr da Silva, investors calculate, will sharply raise the risk of a debt default.



Last year, as Argentina staggered towards its own default, the region remained relatively untouched. This time, the shocks have gone beyond Brazil. On June 20th Uruguay had to abandon its trading band with the dollar; its currency then fell by 16%, though it has now recovered somewhat. As for Argentina, its embattled peso hit a new low of 3.91 to the dollar on June 25th, a drop of three-quarters so far this year. Debt markets from Turkey to Russia have taken a knock.

Part of the turmoil can be explained by events outside the region, notably a rout in rich-world stockmarkets, as well as a slide in the American dollar. Part is a direct consequence of Argentina's mess. Uruguay could not maintain its fixed currency because depositors—among them, many Argentines—pulled their money from banks, fearing a repeat of Argentina's freeze on assets earlier this year. But most important is a sudden investor panic over Brazil.

Recent technical changes in Brazilian debt markets, including a requirement that domestic mutual funds mark their assets to market, have unnerved the country's investors. Jittery Brazilians did not like opinion polls showing Mr da Silva with a big lead over Jose Serra, the markets' preferred candidate. The alarm soon spread to foreign-debt markets. Can Brazil really be another Argentina in the making?

The conventional answer, even from those selling Brazilian assets, is probably not. Although Brazil, like Argentina, has a sizeable debt burden (public debt stands at 55% of GDP, most of it domestic), it differs from Argentina in several notable ways.

Thus, Brazil has not had four years of recession—even though the economy has stumbled in the past year. Brazil has a currency that floats; Argentina had a rigid currency board. Unlike Argentina, Brazil has shown fiscal discipline. For the past three years, it has run a primary fiscal surplus—the surplus before interest payments—equivalent to 3.5% of GDP, and in the light of market jitters, that target was recently

raised to 3.75%. Again unlike Argentina, Brazil has deft policymakers, who send clear signals to the markets. Worried about possible contagion from Argentina and about pre-election jitters, the Brazilian government, as a precaution, set up a $15 billion facility with the IMF last year. When market turmoil hit last week, they simply drew money down.

Much of which suggests, as Paul O'Neill, America's treasury secretary, put it most bluntly, that " the situation there is driven by politics, it's not driven by economics". The logic leads many Wall Street analysts to a simple conclusion: if Mr Serra is elected, Brazil scrapes through.

Not everybody agrees with this analysis, however. Some point out that not only is Brazil's debt burden heavy (particularly in relation to its exports); but that, despite the fiscal surplus, Brazil's ratio of public debt to GDP has worsened, from 49% in 1999 to 55% today. With high real interest rates and a stalled economy, that debt dynamic is a dangerous one. A hard look at the numbers suggests that Brazil's problems go well beyond the political. Morris Goldstein, of the Institute for International Economics in Washington, DC, predicts a 70% chance that Brazil will default by the end of 2003, whoever wins the election.

The consequences of a possible default are hard to gauge. More sanguine observers reckon that a smoothly handled debt-restructuring need not cause the chaos and pain that Argentina has seen. Just as Brazil competently handled its devaluation in January 1999, so, they reckon, it could pull off a controlled debt-restructuring. Moreover, even after the events of the past few days, contagion between emerging bond markets is still a far cry from the crises of the late 1990s. Yet many still fear the worst: huge costs for Brazil, particularly for its financial sector, and perhaps the end of emerging-market bonds as a viable asset class. Either way, it is an outcome that the IMF and rich-country governments would like to avoid.

They are less clear about how to do so—except to try to keep Mr O'Neill quiet. His off-the-cuff remark on June 21st, that "throwing the U.S. taxpayers' money at a political uncertainty in Brazil doesn't seem brilliant to me", upset already nervous markets and infuriated the Brazilians. The Bush team has heaped praise on Brazil's policies all week since. Yet beyond supportive words, it has no clear course of action.

Most policymakers in Washington still take the line that Brazil's travails are primarily political. They also point out that the country has enough foreign-exchange reserves and cash in hand to survive until after the election, unless there is a wholesale collapse of confidence among Brazilians, leading to large-scale capital flight. In that worst case, foreign money could not stem the tide anyway.

Some observers suggest that the IMF should offer concrete promises of more financial support if all the presidential candidates explicitly agreed to follow prudent policies—such as supporting central-bank independence and raising the budget surplus still further if need be. There are precedents for such pre-electoral pacts. In 1998, before bailing out South Korea two weeks before a presidential election, the IMF reached an informal agreement with the candidates, who all promised to support economic reforms.

If panic worsens, the IMF could try the same in Brazil. For now, officials in the Bush administration do not draw parallels with South Korea. Besides, they are loth to advocate anything "radical or panicky". With four months until the election, the decision in Washington is to offer verbal support, sit tight—and hope for the best.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Credit Suisse and Winterthur

Holey cow!

Jun 27th 2002
From The Economist print edition

An opaque financial conglomerate out to repair its image and share price

Reuters

Mühlemann needs help

BANCASSURANCE, the combination of banking and insurance businesses, has come back to haunt Credit Suisse, Switzerland's second-biggest financial group. In the spring of 1997 Lukas Mühlemann, now the group's chairman and chief executive, famously pooh-poohed such marriages. “Why buy a cow,” he said, “when all you want is a glass of milk?” Months later he bought that cow, in the form of Winterthur Insurance—so as to save it from a corporate raider, Martin Ebner.

For a while, the deal looked brilliant. Winterthur brought in pre-tax profits of around SFr1.5 billion ($1 billion) a year, apart from a blip in 1999, and transferred dividends of around SFr500m a year to Credit Suisse—until last year, when it yielded a meagre SFr150m. Also, it was said, Credit Suisse was able to stuff some of its capital-hungry credit risks into Winterthur, which is governed by insurance regulations requiring less capital.

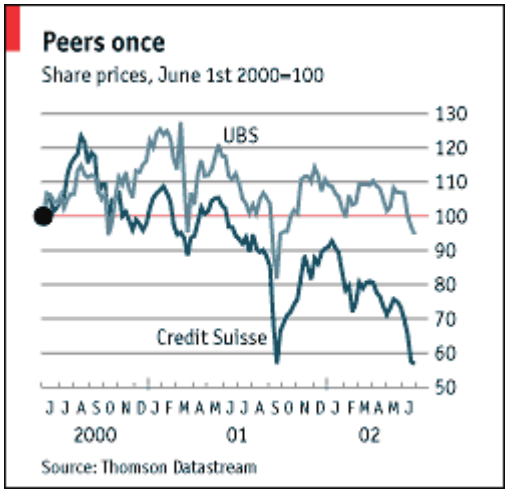
Yet last year everything turned sour of a sudden. In June Credit Suisse sold the insurance arm that served multinational companies, Winterthur International, but it was beaten down on the final sale price. Then the fall in equity markets doubly hit Winterthur's life business, with a fall in both its investment income and its solvency ratio. In its annual report for 2001, Winterthur booked a SFr4 billion fall in shareholders' equity (in essence, it wrote down what it had once written up as unrealised gains on its equity portfolio). And finally, in the first quarter of this year, Winterthur booked a post-tax loss of SFr150m in its life-insurance business.

All this has punished Credit Suisse's share price. With its investment bank, Credit Suisse First Boston (CSFB), full of expensive deal-makers, the group's shares have long been regarded as a bull-market investment—they were reckoned to thrive when markets boomed and trading volumes were high, but to suffer when markets and volumes fell. Now Winterthur, once seen as a counterweight to that tendency, looks weakened. CSFB needs to cut costs; but Winterthur needs new capital.

Last week Credit Suisse announced that it was bolstering Winterthur with SFr1.7 billion of capital, some of it the proceeds of a recent issue of perpetual bonds. But the share price fell further. Why?

One answer is that analysts do not quite believe Credit Suisse's story. Its accounts are too opaque. Although the group's shares are listed in New York, Credit Suisse reports neither under American nor under international accounting standards, preferring the less burdensome Swiss variety. UBS, its big Swiss bank rival, which has no insurance group attached, files under both American and international standards and has recently enjoyed a much more stable share price (see chart). Two years ago, it was UBS that was punished for not riding the boom. Today, the group's spokesman complains, investors seem to treat Credit Suisse as an insurance stock, not a bank. Yet apart from continuing talks with analysts, the bank has no plans to disclose any more information.

Its shunting of capital from the bank to the insurance company is not, both the bank and its regulator, the Federal Banking Commission, insist, designed to take advantage of a laxer insurance regime. Credit risks are consolidated at group level and a suitable amount of capital (set by the bank itself) is held to cover those risks, they say. So there is no incentive to shift credit exposure into the insurance company. But this is true only so long as the regulator does not rigidly apply the crude capital standards set in 1988 by the Basel committee on banking supervision. Those standards are still used by most banks, including Credit Suisse, in their financial reporting.



Regulation of financial conglomerates is in dire need of updating. The European Union will pass a directive on conglomerates, perhaps by the end of this year, which aims to harmonise the regulatory treatment of most market and credit risks, whether in an insurance company or in a bank. In May Britain's Financial Services Authority proposed new rules for conglomerates. It noted that existing EU solvency requirements for insurance companies are widely regarded as “imprudently low”, and it threatened a tougher regime in Britain, even if that forces some insurers elsewhere. Switzerland, though not an EU member, is likely to follow EU practice.

Meanwhile, the banking commission is less worried by Credit Suisse than by conglomerates with a heavier insurance component, such as Zurich Financial Services and Swiss Life, both of which own Swiss banks. Since the banks fall under regulatory capital ratios for insurers, there is more danger of weak overall capital. Under pressure from analysts, Swiss Life may sell its subsidiary Banca del Gottardo.

That does not seem to take the pressure off Mr Mühlemann at Credit Suisse. He is being blamed for the lousy share price. He has been unpopular in Zurich since last year's collapse of the national airline, Swissair, of which he was non-executive chairman. Last week police raided his offices, along with those of other former Swissair officials and auditors, looking for evidence that the airline traded fraudulently while it was bankrupt.

There is growing talk that Mr Mühlemann may step down from Credit Suisse, acknowledging that the two biggest acquisitions on his watch, Winterthur and Donaldson Lufkin & Jenrette (DLJ), an American securities firm, have destroyed rather than added value to the group. DLJ cost $12.4 billion in 2000, at a time when Credit Suisse's book value was around $20 billion. Today some analysts value the entire shop at less than $20 billion. In part, thank Mr Mühlemann's cow, Winterthur, which is now milking its owner.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Europe's economies

Novelty knocks

Jun 27th 2002 | FRANKFURT
From The Economist print edition

Coping with a sinking dollar

THIS summer, the euro should have less sand kicked in its face. At the end of March, Europe's single currency, once dubbed the “euro-rouble”, was still an 87-cent weakling against the American dollar. As the dollar has atrophied, however, the euro has looked relatively less skinny. On June 26th, with the dollar knocked by the news of accounting shenanigans at WorldCom, the euro jumped to within one cent of parity (see chart), a level it last reached in February 2000.

In trade-weighted terms, the euro's rise has been rather less impressive: about 6% since the end of March, compared with 13.5% against the dollar. It is still a shadow of its worth when it was launched, at $1.17, in January 1999; and it is also worth much less than were its constituent currencies earlier in the 1990s. Still, the euro's latest climb will surely cheer Wim Duisenberg, president of the European Central Bank (ECB), who has often argued that the euro is undervalued. After the ECB's monthly rate-setting meeting on June 6th, Mr Duisenberg said that the currency's appreciation (at that time, to 94.5 cents) was “very welcome”, because it would hold down inflationary pressures and expectations.

Despite the euro's rise, Mr Duisenberg was still worried about inflationary trouble ahead. In May, euro-area inflation was 2%, which is exactly the central bank's ceiling for its goal for price stability. However, he also said that core inflation, which excludes relatively volatile prices of energy and unprocessed food, was “stubbornly high”. Figures published last week put it at 2.6%, the highest in more than six years. Some wage increases were “a cause for concern”.

Several economists took Mr Duisenberg's remarks to be a signal that interest rates, 3.25% since last November, might soon be increased, perhaps at the next meeting on July 4th. This now looks highly unlikely, if only because a rising euro should do much of the work of higher rates. It reduces inflation directly, by making imports cheaper, and it reduces demand for euro-area tradable goods, by increasing their prices relative to those of goods from elsewhere. Michael Dicks, an economist at Lehman Brothers, suggests as a rough guide that a 10% jump in the currency is equivalent to a one-percentage-point increase in interest rates. If that is right, the euro zone has already undergone a significant monetary tightening.

The question is, can it take it? The dollar's fall and the euro's rise represents above all a loss of confidence in America—in effect, investors have become less willing to finance its huge current-account deficit—rather than any bullishness about Europe. If anything, portfolio investment is still leaking out of Europe, not flowing in. Investors have as little faith in euro-area shares as in American ones. In Germany, which, along with a sluggish economy, has had its own stories of accounting jiggery-pokery, the blue-chip Dax 30 stockmarket index dipped below 4,000 on June 26th, for the first time since September.

The euro-area economy as a whole grew by only 1.5% in 2001, quicker even than the American economy. It managed growth of a mere 0.1% in the first quarter of this year (when America rebounded). This was entirely the product of rising net exports: exports fell, but by less than imports. Domestic

demand was a big drag on growth.

An appreciating currency is little help to an economy whose recovery is still nascent, especially when it is so dependent on external demand. Lehman's Mr Dicks points out that exports may be less sensitive to price than economists once thought: look how well Britain has coped with the pound's strength since 1996. Nonetheless, he concedes, the euro's rise is still likely to be a burden to exporters.

Besides the effect on trade, the euro area's ability to cope with the dollar's fall depends to a large extent on three things. The first is how far a stronger euro will help domestic demand, by cheapening imports and thus increasing consumers' and firms' purchasing power, offsetting the drag on exports. The second is how much more robust the euro area's economy has become in the second quarter, now drawing to a close. It is thought to have picked up fairly well, although it is hard to be sure. Industrial production has probably grown at a decent rate. Inventories are being restocked after being run down during a poor winter.

On the other hand, retail sales in Germany, the biggest economy in the single-currency zone, have been poor, weighed down by the weak economy and by consumers' well-founded belief that some shopkeepers and restaurateurs have used the introduction of euro notes and coins at the start of the year as an excuse to jack up prices. Germany's retail federation said this week that it expected its members' turnover to fall by 2.75% in 2002 and barely to rise in 2003. In the zone's second-biggest economy, France, consumer spending retreated in May after a healthy April.

One problem in forming a judgment, say some economists, is that euro-area data tend to come out more slowly than in America or Britain, and sometimes different figures point in different directions. “It's like flying a plane with a sextant,” grumbles Thomas Mayer of Goldman Sachs in Frankfurt. In the absence of timely hard data, says Mr Mayer, a lot of recent optimism about the euro area has been based on such indicators as surveys of business confidence. These feed into economists' forecasts, which in turn feed back into surveys. As a result, he thinks, optimism has run ahead of reality, which is less rosy. Maybe reality is catching up: Germany's Ifo index of business sentiment fell, surprisingly if marginally, in June. Indices for Dutch consumer and business confidence, published the same day, were also weaker than expected.

The third factor is harder still to estimate: how far the dollar has yet to fall. Most commentators expect a further slide, which would be worrying enough for the euro area. Some fear a wholesale rout. Mr Duisenberg, who is due to retire from the central bank next July, has spent most of his time in office bemoaning the euro's weakness. The president may yet spend his final year ruing its strength.

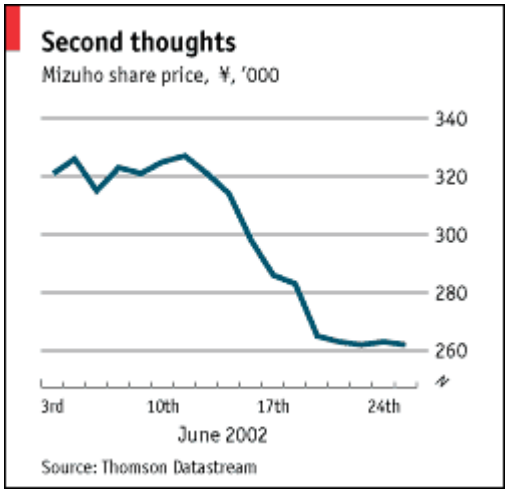
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Mizuho Bank

Big and bumbling

Jun 27th 2002 | TOKYO
From The Economist print edition

Woes at the world's largest bank



MIZUHO'S first annual shareholders' meeting, held on June 25th,was a stormy affair. In the two preceding weeks, the bank's share price had fallen by one-fifth, cutting its market capitalisation by some ¥700 billion ($5.7 billion). Angry investors wanted to know how the official launch, on April 1st, of the world's largest bank by assets could have gone so disastrously wrong. Computer glitches paralysed Mizuho's cash machines and crippled debit systems, holding up millions of fund transfers for utility and credit-card bills for over a month. The fiasco is likely to cost the bank more than ¥1.7 billion in refunds and compensation payments. That is, admittedly, a drop in the ocean compared with the losses of ¥976 billion that the group made in the year to March 31st. Yet there is the matter of precious customer trust to consider.

On June 19th the Financial Services Agency (FSA), the bank's regulator, issued a scathing report, condemning Mizuho's shoddy preparations, weak management and poor internal communications. Rivalries between Dai-Ichi Kangyo Bank (DKB), Fuji Bank and the Industrial Bank of Japan (IBJ), which merged to create Mizuho, delayed efforts to integrate computer systems. Frantic engineers skipped important tests. Top executives failed to ask questions.

Mizuho was slapped with a business-improvement order. It has since sacked one executive and dealt out lighter penalties to 120-odd other staff. Its troubles are far from over. Not only must it find the flaws in its debit systems. It has also promised to merge the three banks' accounting systems by next spring. Another glitch could drive more customers away, threatening the bank's liquidity.

Mizuho might decide to postpone further integration of its systems, though this would set back plans to consolidate branches to bring down costs. Persistent internal discord is also likely to hamper efforts to clean up a huge pile of bad loans. Meanwhile, the stockmarket is on the slide again, hurting Mizuho's equity portfolio. Hironari Nozaki of HSBC Securities says that Mizuho is particularly sensitive to market fluctuations.

The shareholders' meeting, held behind closed doors, broke a habit started by DKB—after a gangster-related scandal—of improving transparency by throwing its doors open to the public. Mizuho, critics say, seems to have forgotten that it received ¥2.8 trillion of public funds in return for issuing preference shares, turning taxpayers, in effect, into a big shareholder in the bank.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

Bidding adieu?

Jun 27th 2002
From The Economist print edition

Auctions were going to revolutionise the price mechanism. Not yet

NOT long ago, auctions were confined to the fringe: farmers hawking pork bellies in Chicago, say, or down-at-heel aristocrats selling family pictures at Sotheby's. Over the past decade, however, auctions have moved into the mainstream. Two things have helped to spread their use: the fashion for the sale of state assets and the rise of the Internet. Today, power plants, radio spectrum and even whole companies are sold by governments at auction. On the Internet, private buyers and sellers are put in touch over everything from Elvis memorabilia to airline seats. Perfectly efficient markets, you might think, have arrived at last.

Economists certainly love auctions, because they enable buyers and sellers to come together with full knowledge of supply and demand. Barriers to entry are minimal; an item simply goes to the buyer willing to pay the most for it. Raising the number of bidders, in theory, should result in higher demand and higher prices for a good. Increasing the supply of goods at auction lowers their price. Rationing goods at auction is silly, since it leaves money on the table.

Yet for all their promise, many auctions have strangely disappointed. For online auctioneers, a problem is that customers face costs in time spent bidding, and the risk of losing the auction. Fixed prices can work better if they reduce time spent buying and the risk of not getting what you want. This may explain why few auction websites—eBay is the notable exception—have prospered.

More complex problems bedevil auctions of dearer goods. Auctions for company shares—through initial public offerings (IPOs), for instance—have never taken off, a puzzle for some economists. Meanwhile, European government auctions of licences for third-generation mobile telephony caused controversy. Some governments raised fantastic sums, yet only at the cost of pushing buyers, who felt they had to win a licence or go out of business, into debts they now find hard to sustain. Other countries' auctions fetched lower prices than expected.

Raising the bids

Auctions, in other words, often produce results that seem to defy the simple laws of supply and demand. A new paper* by Jeremy Bulow of Stanford University and Paul Klemperer of Oxford University sheds light on such seemingly perverse outcomes. These, the authors suggest, may be more common than was thought.

When every bidder remains true to his personal reckoning of what something is worth, auctions do indeed obey the laws of economics. What somebody will pay, say, to own an unusual painting probably depends on his estimate of “private value”. Problems arise when bidders try to guess what competitors (who might have more information about the good) will bid, and adjust their own bids to match. This is especially risky with financial or income-earning assets, such as company shares or an oil-field. If every bidder had perfect information about what is being sold, you might expect no variation in the bids for “common-value” assets. Yet in auctions of common-value assets, the traditional laws of economics are unlikely to work.

Chalk it up to the winner's curse: it is sometimes the most optimistic, and least well informed, bidder who wins at auction. If bidders are mindful of the curse, they may become more conservative as the number of rival bidders increases. Thus more bidders (ie, more demand) can actually lead to lower

prices, since each bidder fears that a larger number of competitors might know more than he does. This might be one reason, say the authors, why a target company often accepts a takeover bid without courting the biggest number of acquirers. Increasing the number of bidders might make each too shy to bid up to the company's full value.

The winner's curse also helps to explain another snag with auctions. In America, auctions for a single mobile-phone licence in one city have yielded a lower price than an auction for two licences in another city of comparable size. An increase in the supply may actually bring higher prices, as bidders feel less worried about the winner's curse.

What of the market for public offerings of shares? IPOs have often been sold by underwriters for less than the prices at which shares changed hands on their first day of trading. That has led economists to argue that an auction would allocate shares more efficiently, raising more money for issuers. Auctions have been tried, but without much success. Here again, the winner's curse might explain why investors are so cautious.

The winner's curse is only one problem with recent auctions. A bigger one, which may be easier to fix, is auctioneers' overwhelming preference for one main style of auction, the ascending-bid auction. The auctioneers assume that this will yield the best prices. In theory, perhaps; but in the real world it turns out to be especially prone to collusion among bidders. In another paper**, Mr Klemperer reviews some lessons, and points to other bidding methods, such as sealed-bid and hybrid Anglo-Dutch auctions.

More broadly, he concludes that too little attention has been paid to basic competition policy. Eliminating collusion, and attracting the right number of bidders, would do more to boost efficiency than perfecting any theory of how idealised bidders might play.

---

*"Prices and The Winner's Curse", by Jeremy Bulow and Paul Klemperer. Rand Journal of Economics, Spring 2002. **"What Really Matters In Auction Design", by Paul Klemperer. Journal of Economic Perspectives, Winter 2002.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Nuclear power

Pebble dashed?

Jun 27th 2002
From The Economist print edition

Prospects for a new type of nuclear reactor look mixed

IT GENERATES radioactive waste that is hard to store or dispose of. It comes loaded with questions about its economics, at least when the accounts are done honestly. And it runs the risk of catastrophic accidents if it goes wrong. Yet nuclear power has one advantage that environmental activists ought not to ignore: it produces almost no carbon dioxide. By contrast, fossil fuels such as oil, gas and coal release vast quantities of this gas when burned. Since carbon dioxide is one of the greenhouse gases that most researchers believe to be causing global warming (it hangs around for decades in the atmosphere, trapping energy from sunlight and thus causing the atmosphere to heat up), some suitable spinning could promote nuclear power as having better green credentials than it has managed to acquire so far.

Such spinning would, however, be much easier if there were a reactor design that overcame the economic and safety problems of existing models. About half the world's 430 or so nuclear-power stations use pressurised-water reactors (PWRs). The advantage of these is that, with such a large installed base, people know how to build and run them.

The problems are, first, that the plants involved in the Three Mile Island accident in 1979 and the Chernobyl disaster in 1986 were both PWRs, which makes people jittery about the design (none has been built in America since 1979); and, second, that they involve a huge capital investment. They are big beasts that take at least six years to construct, plus however long it takes to win planning consent. And when a new PWR eventually comes on line, it tends to swamp the electricity market by suddenly injecting a vast amount of power into the system. No wonder power companies prefer gas-fired plants, which are smaller and can be built from scratch in less than two years.

The nuclear industry is therefore considering a new generation of slim-line reactors that would be smaller, safer and cheaper to build. One of the most promising designs is the “pebble-bed modular reactor” (PBMR) being developed by South Africa's state-owned energy utility, Eskom. This reactor would have a tenth of the power output of a PWR and could be built in two years. And because it is modular, generating companies could bolt on extra capacity as demand grew.

Eskom's interest stems from South Africa's heavy dependence on coal, which accounts for over 93% of its electricity. The country wants to diversify its energy supply and make the most of its substantial deposits of uranium. Two years ago, Eskom set up the PBMR programme as a joint venture with Exelon (an American energy giant) and British Nuclear Fuels (a company that produces fuel used in British and Japanese nuclear reactors). David Nicholls, the programme's chief executive, says he hopes to win South African government approval by the end of the year to build a test reactor at Koeberg, near Cape Town. He thinks a commercial reactor could be ready by 2007.

Technological hurdles

Pebble-bed reactors pose some challenging design problems. Conventional PWRs are powered by thousands of fuel rods made from “enriched” uranium, in which the proportion of light uranium atoms (which undergo fission, and thus provide the energy) has been artificially boosted. The energy produced

when these atoms split is removed by water that circulates through the reactor core under high pressure. This water then passes through a heat exchanger, where it gives up its energy to steam at lower pressure. The steam, in turn, is used to drive a turbine that spins a generator to produce electricity.

Eskom's PBMR, by contrast, is fuelled by several hundred thousand tennis-ball-sized spheres, known as pebbles, each of which contains thousands of tiny “kernels” the size of poppy seeds. Each kernel is a blob of uranium coated with high-density carbon. This coating is designed so that, even if all the reactor's coolant (helium gas, not water) leaked out, the uranium in the pebbles could not melt and release radiation into the environment. The reactor core also contains “blank”, fuel-free graphite pebbles. Graphite acts as a neutron “moderator”. Nuclear fission is caused by a neutron colliding with an atom of light uranium, a process that releases further neutrons, and thus allows further fission in a so-called chain reaction. The presence of the blanks lets the reactor's operators control the chain reaction by slowing these neutrons down.

One advantage of the PBMR is that it can be refuelled continuously. As the fuel burns, the pebbles gradually shuffle down the core, like bubble gums in a sweet dispenser. They drop out of the bottom of the core at a rate of about one a minute, and can then be reinserted at the top if they still contain useful fuel, or replaced if they do not. Eskom say the reactor could be kept running non-stop for six years in this way, unlike a PWR, which has to be shut down every so often for refuelling. Another advantage of the pebble-bed reactor is the helium coolant. Helium conducts heat well—making the reactor efficient—and, unlike water, is not corrosive. Also, it can be fed directly into a turbine, rather than having to pass its energy on via a heat exchanger.

For all these reasons, Mr Nicholls thinks the pebble-bed reactor could compete directly with gas turbines, which make up over two-thirds of all new power plants in the world. He believes that it should be possible to sell 10-20 pebble-bed reactors a year.

Safety barriers

Critics remain unconvinced by the technical and economic arguments for PBMRs, however. Nuclear reactors, they say, often look great on paper, but are then plagued by practical difficulties and prove impossible to build on time or to budget. Steve Thomas, of the University of Greenwich, in Britain, has studied the economics of the PBMR. He believes that Eskom's estimates of how much it would cost to build and run are hopelessly out of line with experience of nuclear technology in the rest of the world. According to Mr Thomas, the reactor could be a world-beater in terms of capital costs, operating performance and running costs, and yet still be more expensive than new gas-fired plants.

But the biggest criticism of the reactor is that it is not as safe as Eskom claims. Concerns centre on the possibility that the fuel-filled pebbles could leak, or that the graphite pebbles might catch fire. The reactor also lacks a back-up mechanism to stop it overheating and exploding should the helium coolant escape. If an escape happened, a plant's operators would just turn it off and let it cool down of its own accord. But that is unlikely to satisfy regulators.

There is also a worry that the PBMR is little more than a new twist on a failed design dating back to the 1960s. West Germany, for example, abandoned its pebble-bed research programme after problems with a demonstration reactor. During a routine run in 1986 a few days after the Chernobyl fire, one of the pebbles became lodged in a pipe feeding the fuel to the reactor. Attempts to shift the stuck pebble damaged the reactor and caused a radiation leak. The project's reputation never recovered, and the reactor was shut in 1990.

Exelon is already getting cold feet. It originally hinted that it might build 40 reactors, but in April it suddenly pulled out of the PBMR programme. The withdrawal is a blow for Eskom, which had seen its American partner as a way of encouraging American regulators to license the reactor. George Bush wants to expand nuclear power, and has called for the construction of new nuclear plants in America, so the stakes are high. On top of that, no company in its right mind would want a reactor that has not received a stamp of approval from one of the world's leading nuclear countries.

Even so, the pebble-bed design is one of the most imaginative around. It would be a pity if it were not tried properly at least once—and a feather in the cap of South Africa if that country were the one to try it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Cancer diagnosis

Close up and personal

Jun 27th 2002
From The Economist print edition

A device used in metallurgy should simplify the diagnosis of mouth cancer

THE first signs of cancer are often abnormal cell nuclei. These can be detected easily with a microscope, but getting them under that microscope is a palaver, since they have to be removed in a biopsy, then sent to the laboratory where the microscope is sitting.

It would be better all round if the microscope could come to the cells. And that is the solution proposed by P.W. Allen, a British company better known for supplying bomb-disposal equipment, and a team at St Bartholomew's Hospital in London, led by Iain Hutchison, a mouth surgeon. The Cy-Scope, as the result of this collaboration is called, is less a new invention than a piece of technology transfer. It is based on a device used to examine the interiors of jet engines for hairline fractures (one of P.W. Allen's sidelines). In the hands of Mr Hutchison, though, it is being used to look in patients' mouths for signs of oral cancer. With appropriate modification, it might also be employed to look for cervical, rectal and oesophageal cancer.

The principle behind the Cy-Scope is an old one: endoscopy. This involves either putting a camera on the end of a flexible rod and inserting it through a hole (natural or artificial) in the body; or making the rod itself out of optical fibres and having the camera outside the body.

Cy-Scope opts for the first approach. The difference is that its camera is a miniature microscope which can magnify up to 500 times, and which can be held against the epithelial cells lining the mouth. In practice, since the prototype is hand-held, the shaking of even the steadiest surgeon's hands means the effective maximum magnification is only 200 times. The use of “steady-cam” technology of the sort employed in television broadcasting should overcome that limit, though. In any case, existing endo-microscopes can manage no better than 60 times, which is too little to see cell nuclei reliably.

Light is supplied to the lens by an optical fibre, and the resulting image is either examined on screen by an expert, or transmitted to a computer loaded with image-recognition software programmed to look for abnormalities. In the case of oral cancer, the giveaway is the distribution of the nuclei in the epithelial tissue. Normal epithelium has evenly distributed nuclei. Early signs of trouble include abnormal clustering of the nuclei, and areas of “white space”.

So far, the technology has been used to assess 133 patients and has had a 100% success rate in revealing early symptoms of cancer. In two cases, the Cy-Scope picked up cancers that more conventional examinations had missed. And not only is it effective; unlike many medical advances, it is also cheaper than what it replaces. It will retail for about £5,000 ($7,500). In contrast, a single biopsy with anaesthesia, follow-ups and pathologist's report costs around £1,000. So the accountants will love it, as well as surgeons and their patients.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Materials science

Safe deposits

Jun 27th 2002
From The Economist print edition

A new way to build complicated materials, micron by micron

MATERIALS scientists have long wished that they could design and build their products in the same way that architects and engineers design and build new houses and cars. When erecting a house, its architect does not make an enormous house-shaped mould, fill it with concrete and leave it to dry. Rather, houses are built up in pieces: walls with spaces for windows are put into place, then the windows are added, and finally the roof.

If it were possible to craft composite materials in the same way—precisely specifying the distribution of different components within the composite—much more sophisticated substances might be created. And if a prototype material were found faulty in some way (liable to crack, melt or bend, for example), then its structure could be tweaked, rather as an architect might replace or move a weak supporting beam in a house with a wall in danger of collapsing.

Such a thing may now be possible. A technique developed by Jennifer Lewis and James Smay of the University of Illinois at Urbana-Champaign, and Joseph Cesarano of Sandia National Laboratories in Albuquerque, New Mexico, should allow materials scientists to exercise just this sort of control in the future, using colloids.

Colloidal suspensions contain particles of one material (a solid or a liquid) dispersed in another (which can be solid, liquid or gaseous). The radii of the suspended particles are measured in millionths of a metre, so if they can be controlled, fine structures can be built up. As the team reports in a forthcoming issue of *Langmuir*, a journal devoted to the study of colloids, the new technique allows them to build composite materials with custom-designed features as tiny as the diameter of a human hair.

To achieve this, the team modified an older technique known as robocasting, which was developed by Dr Cesarano. A robocaster is like an ink-jet printer, except that the liquid is extruded continuously as a filament, rather than being sprayed as droplets. The filament is designed to harden as it dries, so an object can be created layer by layer. The catch with robocasting, a manufacturing method that has been used mostly for making new sorts of ceramic, is that the filaments tend to lose their structure and blend together as they dry. This is fine for making uniform materials, but not so good if detailed structure is required—which is where the colloids come in.

Dr Lewis and her colleagues used their knowledge of colloids to create “inks” that retain their shapes as they harden, rather than merging with their neighbours. That makes it possible to create minutely filigreed structures, such as concentric rings and scaffolds. Since the robocasting machine allows the researchers to manipulate several inks at once, they are able to make new kinds of composite materials this way—interlacing the filigrees, and even leaving holes in the material if that helps to arrive at the desired properties.

At the moment, the inks are made of suspended ceramics, including silica and also hydroxyapatite—the primary constituent of bone. The next step for Dr Lewis and her colleagues is to expand their palette. Anything that can be made colloidal (for example polymers, semiconductors or even metals) could, Dr Lewis reckons, be deposited with sufficient precision to be incorporated into a composite. If they prove a success, these experiments could spur the invention of a host of new designer materials.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Early human culture

But is it art?

Jun 27th 2002 | JOHANNESBURG
From The Economist print edition

A cave in South Africa may rewrite human history

FOR the whole of the 19th and the first decades of the 20th centuries, archaeologists in the West denied that mankind had originated in Africa. The first humans, surely, must have been Europeans. That idea was disproved by Raymond Dart in the 1920s. He discovered fossil human bones in South Africa. These skeletons, though, were earlier species than *Homo sapiens*. Then, in the 1980s, genetic work by Allan Wilson showed that modern man, too, had an African genesis. But at least the Eurocentrics had cave paintings to comfort them. The oldest of these symbols of humanity's cultural pretensions were European. Therefore culture was invented in Europe. So there!

Picasso eat your heart out

Chris Henshilwood, a South African archaeologist, begs to differ. He is challenging the theory that artistic culture first developed in Europe about 35,000 years ago, after people had migrated out of Africa. He has dug up evidence which, he claims, shows that such behaviour evolved over 70,000 years ago—and in Africa.

This evidence comes from a seaside cave called Blombos, two hours drive from Cape Town. Mr Henshilwood and his team have spent years scraping an impressive collection of artefacts out of this cave. In particular, Blombos was full of bits of ochre, a mineral that can be crushed and used to paint the skin for decoration, and for protection from the sun.

That is not unusual; many African caves contain bits of ochre. But two stones found in recent years have patterns engraved on them. This, according to Mr Henshilwood, means they are “intentional images and can be considered a complex geometric motif”. Tests on the sand they were buried in, using two different dating techniques (thermoluminescence and oxygen-isotope analysis), suggest they are between 70,000 and 80,000 years old. If that is right, they constitute the world's oldest works of art. In February, Thabo Mbeki, South Africa's president, opened parliament with the stones at his side, and said he was delighted to have proof that Africa gave birth to modern man.

One African cave does not, of course, compare with the Neolithic cultural riches dug up across Western Europe. But there are, according to Mr Henshilwood, many more caves to explore and excavate near Blombos, so more art may turn up. Given that things can move between strata due to the activities of burrowing animals, a few more examples would certainly add to confidence that he is right about the date. On the other hand, according to Mr Henshilwood, “No one has challenged our methods yet.” Europe's pretensions may be pricked again, as the first artists turn out to have been African.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Diplomats in Russia

Side by side with Yeltsin

Jun 27th 2002
From The Economist print edition

Reuters

Communism may have collapsed, but it's as hard as ever for foreigners to get to grips with the Kremlin

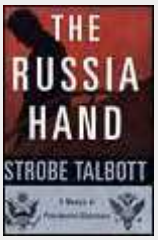
FEW books could complement each other so much, and yet be so different as these two memoirs of diplomacy. One is hard going: remorselessly chronological and doggedly self-justifying. Yet, for all that, it is a worthy and occasionally fascinating chronicle of the way the United States handled Russia during President Clinton's two-term presidency. The other takes a wider, more reflective and, in many ways, more illuminating view. It is more descriptive, more thoughtful and says a great deal about Russia in the round.

The first book, by Strobe Talbott, feels as if it were written by a bureaucrat, though the author is by profession a journalist, who became a public servant only when he was appointed Mr Clinton's adviser on Russia and the former Soviet Union. The other, by Sir Rodric Braithwaite, contains many fine passages of on-the-spot journalism, though written by a life-long civil servant who was Britain's ambassador to Moscow in 1988-92 and an adviser to several British prime ministers.

Mr Talbott makes two arguments. First, he is unrepentant about what he acknowledges to be “the personalisation of American foreign policy” towards Russia in the shape of Mr Clinton's artfully warm friendship with President Boris Yeltsin. Second, he describes America's extraordinary efforts, not just to keep the man in the Kremlin pointing the right way, at least in foreign policy, but also to talk any number of other prickly Russians, including generals and politicians, into accepting a seemingly endless series of humiliations without altogether ruining the two countries' post-cold-war relationship.

It was, as Mr Talbott describes it, a completely novel game. Between 1993 and 2000, Mr Clinton met his Russian counterpart 18 times, which is more than the

The Russia Hand: A Memoir of Presidential Diplomacy
By Strobe Talbott

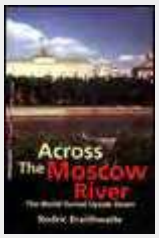


Random House; 478 pages; $29.95

Buy it at
Amazon.com
Amazon.co.uk

Across the Moscow River: The World Turned Upside Down
By Rodric Braithwaite

nine previous American presidents and all seven Russian leaders since the second world war had done. Mr Clinton's unusual stamina as well as his intelligence and tireless bonhomie played a huge part in keeping Mr Yeltsin and Russia sweet. Yet Mr Talbott is also sensitive to the charge that, by thus overpersonalising policy, Mr Clinton and his advisers were partly to blame for the corruption and other egregious abuses of power that disfigured Russia's transition from a totalitarian but orderly dictatorship to a chaotic state where new freedoms saw a few people become very rich while much of the population became even poorer. Mr Talbott more-or-less admits too that he may have sent the wrong signal to the Russians by letting them feel they were justified in using force to suppress Chechen separatists.



Yale University Press; 372 pages; $26.50 and £19.95

Buy it at
Amazon.com
Amazon.co.uk

In truth, there was probably little the Americans could have done to help Russia handle its transition more effectively and fairly. As Mr Talbott famously quotes Mr Clinton, “Yeltsin drunk was better than most of the alternatives sober.” That assessment, though painful, was probably right. And for all Mr Yeltsin's appalling shortcomings, his final big decision in office—to pick an obscure former KGB officer to succeed him—may, in retrospect, turn out to have been sound.

Indeed, it was remarkable that the post-communist transition, however messy, was achieved with so little bloodshed. Moreover, the dissolution of the Soviet empire and the deeply grudging, but ultimately peaceful, acceptance by Russia's generals and by a powerful assortment of communist and nationalist politicians that their diminished country could no longer call many (if any) shots across the world, was another astonishing achievement—for which Messrs Clinton and Talbott deserve a share of the praise.

It was astonishing, for instance, that the expansion of NATO proceeded without more aggravation by the Russians and that even the Balts now look likely to join up without the Kremlin thwarting them. Ukraine's independence, which once looked highly qualified in the face of lingering Russian imperial nostalgia, is more or less assured. Americans now help to ensure the safety of the many nuclear weapons that were once deployed around the Soviet Union. Mr Talbott also describes in nail-biting detail how the Clinton administration, using the most devious and complex diplomatic cajolery, persuaded the deeply resentful Russians to co-operate in the Balkans, to the detriment of their old friends the Serbs.

Sir Rodric Braithwaite's book focuses more on earlier events—the wholesale collapse of Russian communism—which he witnessed, with his feisty and admirably undiplomatic wife, from his residence across the Moscow River from the Kremlin. His account of the coup against Mikhail Gorbachev in 1991 and Mr Yeltsin's assumption of power after its failure is particularly gripping.

With hindsight, Britain's envoy probably hung on too tightly and too long to the notion that Mr Gorbachev should be backed to the hilt by the West, when it should have been plain that Mr Yeltsin, for whom Sir Rodric had grudging admiration but little affection, was on the way to becoming the new tsar. He movingly describes Mr Gorbachev's dilemmas and, with many first-hand anecdotes, analyses the last Soviet leader's talents and flaws with rare insight. His description of how power gradually and then with dizzying speed slipped out of Mr Gorbachev's hands is hard to beat.

The Russia Hand: A Memoir of Presidential Diplomacy.
By Strobe Talbott.
Random House; 478 pages; $29.95

Across the Moscow River: The World Turned Upside Down.
By Rodric Braithwaite.
Yale University Press; 372 pages; $26.50 and £19.95

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Japanese history

Early encounters

Jun 27th 2002
From The Economist print edition

THE man who opened Japan to foreign trade in 1854 was Commodore Matthew Perry of the US Navy. The move brought down the shogunate, restored the Meiji emperor and began modern Japan's rise to eminence.

Europe had tried to communicate with Japan three centuries before Perry's black ships hove into view. This attempt, which started out promisingly enough with the establishment of a string of trading posts, ended in slaughter and religious proscription. Throughout much of it, Samurai William, the Englishman William Adams, who first came to Japan in 1600 in the service of a Dutch ship, but later became friend and ennobled adviser to the shogun Tokugawa Ieyasu, had a ringside seat. Giles Milton, again expertly navigating the eastern seas from which he brought us “Nathaniel's Nutmeg”, frames the tale of this first meeting between Japan and the West around Adams's remarkable career there.

In the absence of a navigable north-east or north-west passage, Japan is the remotest of nations from Europe, and was the last to be reached in the great voyages of the 16th century, which saw Portuguese, Spanish, Dutch and English navigators racing to map the globe. The Japanese turned out to be the epitome of elegance and order. Mr Milton shows from a wealth of contemporary accounts how it became apparent that they found their “discoverers” as uncivilised as the Europeans did the head-takers of the southern seas. The Portuguese were suspected of spreading Catholicism in an attempt to undermine imperial authority; the English were detested for their drunkenness and brawling. The goods the traders brought were inferior and unsaleable. In the end, Ieyasu's successor expelled the lot of them. By 1637, more than 15 years after Samurai William died, the long era of *sakoku*—the “closed country”—had begun.

Samurai William: The Adventurer Who Unlocked Japan.
By Giles Milton.
Hodder & Stoughton; 400 pages; £14.99.

Samurai William: The Adventurer Who Unlocked Japan
By Giles Milton

Hodder & Stoughton; 400 pages; £14.99.

Buy it at
Amazon.co.uk

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Islam

Fear and loathing

Jun 27th 2002
From The Economist print edition

La rabbia e l'orgoglio.
By Oriana Fallaci.
Rizzoli; 166 pages; euro9. Published in France as "La rage et l'orgeuil" by Plon, and distributed in the United States, in French, by French & European Publications

WOE betide those weedy westerners who criticise Oriana Fallaci's post-September 11th rant, "La rabbia e l'orgoglio" ("Rage and pride") against the "sons of Allah", who "breed like rats", invade Europe to soil the piazzas and bridges of the author's native Florence with their "shit and piss" ("God, they piss a long stream, these sons of Allah"), and—wherever they may be, from Morocco to Afghanistan, Kenya to Saudi Arabia—revere as a hero Osama bin Laden. To take issue with this description is to be a spineless member of the chattering classes, and, in particular, to "have no balls".

In Italy, and in France where "La rabbia e l'orgoglio" was published more recently, Ms Fallaci has a keen following and her book has rapidly become a bestseller. So, putting aside her scatological excess and testicular obsession, does she have a case? Up to a point, yes. It is true that Mr bin Laden is evil, yet has widespread support in the Muslim world; that Muslim women are discriminated against and sometimes—witness life under the Taliban—condemned to a life of miserable servitude; and that Europe's cities are a magnet for the world's poor, and so for the begging, prostitution, crime and other uglinesses that all too often come with them.

The problem is that the Manhattan-based Ms Fallaci, who by virtue of her distinguished career as a journalist should know better, provides no perspective and precious little context for her analysis of history. Instead, her book (an extended version of an article she wrote for *Corriere della Sera* after the terrorism attacks of September 11th) is a gloriously fluent diatribe, which panders to a succession of prejudices and convictions: her own ancestors were courageous patriots and so, witness her childhood in the Italian resistance, is she; Americans are generous and brave, none more so than New York's former mayor, Rudy Giuliani, and his fellow Italian-Americans.

And the Muslim contrast, discovered in the course of doing some political interviews and covering various Middle Eastern wars? Apart from a few kind words for Jordan's King Hussein and Pakistan's Zulfikar Ali Bhutto, Ms Fallaci seems to find nothing but crudeness and nastiness in the Muslim world, whether she is interviewing Yasser Arafat and the Ayatollah Khomeini or dealing with ordinary Afghans or Arabs ("In my opinion there is something in Arab men that disgusts women of good taste.") As to Mr Arafat's idea of a glorious Arab and Muslim heritage, she maintains that only the ball-less and politically correct would equate Omar Khayyam with Dante or Shakespeare, or put medieval Arab science on a par with such western advances as the discovery of electricity, the steam engine, the telephone, rockets to the moon and so on.

But perhaps Ms Fallaci herself should have the courage to admit the weaknesses in her tirade. After all, surely most people in developing countries, including Catholic Filipinos and Buddhist Laotians, breed energetically (indeed, so did Ms Fallaci's fellow Italians until they discovered the pill and ignored the pope).

Moreover, the world's billion or so Muslims are surely as diverse in their origins, beliefs and interpretations as their Christian counterparts. Finally, for all Ms Fallaci's love of America and her scorn for gutless Europeans who believe "the Americans had it coming to them", it is dishonest to make no mention of America's support for Saudi Arabia, an extremist regime along with the worst of them, or America's role in fostering the Taliban during the Afghan war against the Soviet Union. Ms Fallaci has many things in her life to be proud of, including her family's disavowal of Mussolini. It is ironic, not to say

sad, that Mussolini would almost certainly have been proud of this extremist and potentially dangerous tract.

La rabbia e l'orgoglio.
By Oriana Fallaci.
Rizzoli; 166 pages; euro9. Published in France as “La rage et l'orgeuil” by Plon, and distributed in the United States, in French, by French & European Publications

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

America's legal system

Big, and getting bigger

Jun 27th 2002
From The Economist print edition

THE last week in June is traditionally the moment when the Supreme Court of the United States finishes its term with a flurry of opinions, usually on the most contentious cases of the previous nine months. The nine elderly justices then customarily slip away, without comment, on their summer holidays, leaving waves of controversy in their wake. Their pronouncements on the death penalty make this year no exception.

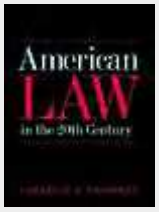
The court is widely considered the most powerful in the world—a law unto itself that answers to no one, neither the president nor the American electorate. And yet for all its undoubted importance, the court is not nearly as powerful as it seems. As Lawrence Friedman makes clear in these two books, the Supreme Court is only one component of a vast and complex legal system that permeates nearly every aspect of American life. It is impossible to understand the court, or indeed American society as a whole, without forming an overall view of how this system works. A surprising number of critics and supporters of American law, focusing on just one small corner which irritates or entrances them, fail to do this.

Law in America: A Brief History
By Lawrence M. Friedman

Modern Library; 224 pages; $19.95 and £15.99

Buy it at
Amazon.com
Amazon.co.uk

American Law in the 20th Century
By Lawrence M. Friedman



Yale University Press; 736 pages; $35 and £25

Buy it at
Amazon.com
Amazon.co.uk

This is what Mr Friedman sets out to remedy, and he achieves it brilliantly. A professor of law at Stanford University, Mr Friedman seems to have found a way to navigate through the vast quantity of verbiage about the history and content of American law, and to write about it in a clear, if sometimes over-breezy, colloquial style. “Law in America: A Brief History” is, as its title claims, a succinct account of how the law has both moulded, and itself been moulded by, political, economic and social forces from colonial days on. The much heftier “American Law in the 20th Century” describes in detail the explosion of new rules over the past century.

AP

The rise of justice

Most legal histories reflect the interests and biases of lawyers, who view changes in the law solely as a matter of the evolutionary accretion of judgments in previous cases, statutes passed by legislatures and—a particular favourite of law professors—glittering new legal theories that offer novel ways of interpreting the law. This is understandable up to a point. The job of lawyers is to win cases with arguments based on these interpretations. But Mr Friedman has written about the law less as a collection of rules and judgments, and more as a reflection of powerful social forces shaping all aspects of American life.

Thus, it is impossible to understand the development of liability law in the 19th century without placing it in the context of America's breakneck industrialisation. Throughout the 20th century, battles over government regulation and property make little sense without some idea of the huge demographic changes that were transforming America. Even the significance of such historic judgments as Brown v Board of Education, that outlawed racial segregation in schools, can be properly assessed only in the light of the racial repression which preceded it, and the political struggle to extend to African-Americans their

legitimate rights as citizens.

With 50 separate state governments and court hierarchies beneath the federal level, the American legal system is more complex than that of any other nation, and the country has, by far, more lawyers than any other. Most non-Americans, along with plenty of Americans, would not share Mr Friedman's view that this highly complex system is a monument to human ingenuity and social co-operation, but instead see it as appalling excess. If Mr Friedman is right that the growth of American law can best be explained as a product of the expansion of free markets, prosperity and individual freedom, then other countries are heading in the same direction. Mr Friedman's books are a good guide to this process. They ought to find readers not only in America, but beyond it as well.

Law in America: A Brief History.
By Lawrence M. Friedman.
Modern Library; 224 pages; $19.95 and £15.99

American Law in the 20th Century.
By Lawrence M. Friedman.
Yale University Press; 736 pages; $35 and £25

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Cycling memoirs

Feeling the burn

Jun 27th 2002
From The Economist print edition

YOU will not read two better S&M books this year. Tim Krabbé's “The Rider” and Matt Seaton's “The Escape Artist” are full of leather, chains, mechanical instruments of torture and breathy musings on the kinky delights of inflicting and enduring pain. “After the finish, all the suffering turns to memories of pleasure, and the greater the suffering, the greater the pleasure” (Mr Krabbé); “You discover that you hurt less if you can make others hurt more...The pain is exquisite, enveloping, consuming” (Mr Seaton). Gosh. You wouldn't want someone reading sentences like those over your shoulder on a bus. But that, apparently, is what serious cycling is all about.

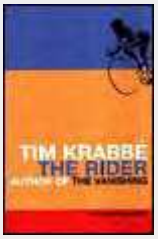
Messrs Krabbé and Seaton have written two very different but equally compelling books about bicycle racing. Both mix autobiography with sporting history; both are irradiated by an intense love of cycling and a fascination with the nature of the racing experience.

Mr Krabbé is one of Holland's most popular writers. “The Rider” was a bestseller when it first appeared in Dutch in 1978 and has since become something of a classic of cycling literature. Sam Garrett's English translation will make it available to a new generation of readers.

Mr Krabbé narrates his experience in the Tour de Mont Aigoual, a gruelling 150km (93-mile) road race through the Cévennes. The race provides a ready-made structure. Details of Mr Krabbé's progress are interrupted (and complemented) by memories of previous races and by reflections on cycling heroes of the past such as Eddie Merckx and Hugo Koblet.

Mr Krabbé's tone is gruffly terse and occasionally a bit pretentious; he is the self-styled Hemingway of the *peloton* one minute and a goatee-stroking *philosophe* the next. Nevertheless, he captures the rhythm of the race—the subtly shifting dynamics, the periods of tension and release, the unexpected developments. “It's a mistake to leave it up to the facts to tell themselves,” Mr Krabbé observes, and if at times “The Rider” reads like a fisherman's tale of the one that got away, it is all the more enjoyable for its rhetorical flourishes.

The Rider
By Tim Krabbé



Bloomsbury; 148 pages; $19.95
Bloomsbury; 148 pages; £6.99

Buy it at
Amazon.com
Amazon.co.uk

The Escape Artist: Life from the Saddle
By Matt Seaton

Fourth Estate; 186 pages; £14.99

Buy it at
Amazon.co.uk

Like Mr Krabbé, Mr Seaton writes about the minutiae of cycling technique and psychology with infectious enthusiasm. He explains, for instance, the finer points of the “through and off”—the basis of riding in formation—and the tactical tricks by which opponents may be turned into temporary team-mates during a race. In a more lighthearted spirit he ponders the tricky question of how high a cyclist ought to shave his legs.

Mr Seaton comes across as neither a bike-bore nor a braggart. He's just an ordinary cove with a passion for cycling. “A certain willed stupidity is useful to the cyclist,” he notes disarmingly at the outset, and you know you're in good hands.

But what really distinguishes “The Escape Artist” is the way Mr Seaton draws out the connections between his bike-riding life and his personal life. His love of cycling grew in tandem with his love of his first wife; his book movingly describes the blossoming and, ultimately, the loss of both. Mrs Seaton—Ruth Picardie, a journalist and writer—died of cancer in her early 30s, not long after the birth of their

twins. Mr Seaton subsequently abandoned racing to a new sense of family obligation.

The uninitiated will learn a great deal about cycling from these two books, while seasoned pros will no doubt find in them plenty they can relate to. Having devoured each of them in a single sitting, this (resolutely non-cycling) reviewer can't wait for the pain to begin when the Tour de France kicks off on July 6th.

The Rider.
By Tim Krabbé.
Bloomsbury; 148 pages; $19.95
Bloomsbury; 148 pages; £6.99

The Escape Artist: Life from the Saddle.
By Matt Seaton.
Fourth Estate; 186 pages; £14.99

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Brancusi's sculpture

Never forget

Jun 27th 2002 | BUCHAREST
From The Economist print edition

New life for a Romanian masterwork

CONSTANTIN BRANCUSI, who died in 1957, was an enigmatic figure; an ascetic in the studio, bon vivant out of it. His finely curving heads go to discerning collectors—one fetched $18m at Christie's in New York last month, a record price for a sculpture—but he liked serving fresh sheep's cheese to his guests and his closest companion was his dog, Polaire. Although Brancusi lived mostly in France, he remained a patriot and even sang mass at the Romanian Orthodox Church in Paris.

In 1935 Brancusi was commissioned to erect a first world war memorial in Targu Jiu, close to where the Carpathian mountains taper off. It was a deeply personal undertaking. He had been born in a village nearby in 1876 and run away to the town as an 11-year-old, working for Ion Mosculescu, a dyer, and then as a waiter in a café. He returned there all his life.

Starting in 1937, Brancusi installed three pieces in Targu Jiu. “Table of Silence” and “Gate of the Kiss” were of stone; “Endless Column” of metal. The pieces stand on a mile-long (1.6km) axis along which, it seems, pass both the living and the dead. The path begins with “Table of Silence”, its empty stools representing loss, in a park at the western edge of the town. It continues through the “Gate of the Kiss”, emphasising the embrace of love for the fallen, and through the town-centre to another park where the heavenward draft of Brancusi's most famous and breathtaking work, “Endless Column”, finally reveals itself.

In giant form, the column recalls the wooden funereal statuary of Romanian village graves. Its 15 identical geometric modules, each two metres high, are cast in iron, burnished with a bronze-like coat and welded to an iron spine. The column's simplicity and sense of infinity enraptured Brancusi. More than any previous work, it captured an essential spirituality of form that he had long been striving for. He wanted to build an inhabited version of it off Central Park in New York topped with one of his bird sculptures. And in 1956, a year before his death, there were tantalising discussions about raising a 400-metre-high “Endless Column” in polished stainless steel on the Chicago lakeshore.

The Targu Jiu memorial emerged from communist rule intact but in urgent need of restoration. Urged on by a group of prominent Romanian exiles, including Mica Ertegun, a New York designer, the World Monuments Fund, a private conservation organisation, decided to do something about it, in time raising $3.2m, most of it from the World Bank, which now sees economic wisdom in preserving cultural monuments.

Work on the “Endless Column” is now complete. The next stage, says Laurie Olin, an American landscape architect, will be to improve the setting. Lawns and gravel paths will enhance the sculptures; newly planted trees will screen out the industrial views and make more of the street connecting the two parks. Playgrounds and picnic areas will ensure that the parks remain public places. A small visitor centre emphasising Brancusi's roots will also be built. The World Bank and the Romanian government hope this will help attract tourists and give lustre to an otherwise poor and unremarkable part of the country. Like Brancusi's in its time, Mr Olin's aim is to ensure that the memorial's simplicity shines through.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

PRINTABLE PAGE VIEW SPONSORED BY

About sponsorship

Esther Lederer

Jun 27th 2002
From The Economist print edition

Esther Lederer, agony aunt, died on June 22nd, aged 83

AP

IF YOU had a problem in ancient Greece the best advice available was said to be at Delphi, then regarded as the centre of the world. The priestess on duty would consult the gods about how to deal with your worries. Lake Shore Drive in Chicago, for many years the home of Esther Lederer, is not immediately recognisable as a successor to Delphi. But America is undoubtedly the present centre of the world, and Mrs Lederer was accepted as its favourite oracle; and with an influence perhaps even greater than that of her Greek predecessor. Her wisdom was dispensed through a syndicated newspaper column, under the pseudonym Ann Landers, that claimed some 90m readers in the United States and abroad.

It is perhaps reassuring for those discomforted by a changing world that people's personal problems appear to have remained the same over thousands of years. Plutarch, who worked at Delphi, mentioned in his writings some of the oracle's aphorisms. A husband bored with his wife after years of marriage was urged not to abandon her. Cheer up, he would be told. “When the candles are out all women are fair.” Mrs Lederer also counselled couples to try to make a go of their marriages whatever the difficulties. In a line Plutarch would have approved of, she advised a husband not to abandon his “frigid” wife. “Many women are cold,” she said, “but few are frozen.”

Her own marriage ended in divorce. “The lady with all the answers does not know the answer to this one,” Mrs Lederer wrote in a column. But to her followers she was still a rock to lean on. Even more so: she had stuck it out for 36 years, and at the end she bravely called the marriage “one of the world's best”. Mrs Lederer's own public gesture against the man who had dumped her was to remove the words “Jules's wife” that she had stitched into the linings of her coats.

She was not by nature a feminist. Homely family values were her main theme, leavened with liberal views that upset some people in America but were broadly tolerated: more gun control, acceptance of homosexuality, abortion by choice. Mrs Lederer was aware of her limitations. “I can't salvage a life that's been rotten for 20 years in a little bit of newspaper space,” she said.

Confessions

In fact, like other agony aunts, Mrs Lederer may not have directly “salvaged” any lives. Any salvaging that took place may have happened as a result of the reader composing a letter, often of a confessional nature. That was the therapy. The correspondent would guess that the 2,000 or so letters sent to the column each day could not possibly all be read by the anonymous “Ann Landers”, even though she said she was a quick reader, but would be filtered by the even more anonymous team of helpers. Few of the problems would be selected for mention in print, but each correspondent would get a reply that was designed not to make things worse.

It was free, apart from the cost of a stamp, when much of the rich world's vast advice industry was costly. Go to a lawyer, a doctor, a financial wizard and you come away with a bill and perhaps a morsel of advice that may be no more helpful than that dispensed by the Delphic Mrs Lederer. There was more. Her column was succinct, sometimes saucy and occasionally witty. Although Mrs Lederer did not invent the agony column, her readers' problems seemed unusually agonising, some alarmingly so. “Please get

counselling at once," she would urge a particularly problematic correspondent.

In America's not always pithy newspapers, Ann Landers was often among the first items turned to, along with the horoscopes and the cartoons. The only worry she had about filling her column was the one every journalist encounters: the occasional period when there are no good stories. Mrs Lederer was once chided for recycling old columns. That's the trouble with keen readers.

A survey said she was the most influential woman in the United States. An exaggeration, perhaps, but it brought her to the attention of government, ever ready to tap into a source of popularity. Mrs Lederer served on a number of advisory committees under the administrations of Jimmy Carter and Ronald Reagan. She was in demand as a speaker and awarded dozens of honorary degrees. Colleges would ponder whether they could add a course in agony aunting to their curriculums. What training would a dispenser of advice need?

Esther Lederer said she had had none other than the moral principles gained from her parents, immigrants from Russia, and being brought up in a solid provincial town, Sioux City, Iowa. She had no career in mind other than tending her marriage when she heard that a Chicago newspaper was looking for someone to run its advice column. Mrs Lederer submitted a sample column and got the job. At first she ran it with her twin sister Pauline, but they fell out for a time after Pauline started her own successful advice column. The rift between the two sisters unable to settle their own dispute caused some amusement among their readers, but the episode probably only made them more popular. Plutarch said that to err, though not wise, was at least human.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Jun 27th 2002
From The Economist print edition

There were renewed falls in **equity prices** as concerns grew about the quality of corporate earnings in America. Stockmarkets in Asia, Europe and America fell sharply on June 26th when WorldCom, an American telecoms group, revealed extensive accounting irregularities. Over the week, America's S&P 500 index fell by 4.6%, while share prices in the euro area fell by 5.4%.

The **dollar** continued to slide. The euro reached a 28-month high, as it approached parity on June 26th. Despite repeated intervention by the Bank of Japan, the dollar also fell to its lowest level against the yen for nine months.

The **Federal Reserve** left the federal-funds rate unchanged at 1.75%. In a downbeat statement, the rate-setting committee said that the growth in final demand had moderated and warned that the strength of the upturn remained uncertain. It said that the risks were equally balanced between maintaining price stability and economic recovery. However, the combination of a weak dollar—which will generate inflationary pressures—and a weak economy—which may require further interest-rate cuts—could pose a dilemma for America's central bank later in the year.

The European Commission played down fears that a rising euro would harm growth prospects in the **euro area**. But the latest survey from Germany's IFO research institute brought scant comfort: the headline index of business conditions fell, from 91.6 in May to 91.3 in June, suggesting that the recovery will be slow in Europe's largest economy.

Britain's house-price boom prompted the Council of Mortgage Lenders to call for a rise in interest rates—the first time it has done so. Gordon Brown, chancellor of the exchequer, appeared to back such calls when he said that he would support the Bank of England in whatever difficult decisions it had to make in the months ahead. However, Sir Edward George, the Bank's governor, said that subdued inflation meant that the Bank did not have to rush any decision.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

About sponsorship

Output, demand and jobs

Jun 27th 2002
From The Economist print edition

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate	
	1 qtr	1 year	2002	2003	latest		latest		latest	year ago
Australia	+ 3.6	+ 4.2 Q1	+ 4.0	+ 3.9	+ 2.5	Q4	+ 5.0	Q1	6.3 May	6.8
Austria	– 0.7	– 0.4 Q4	+ 1.3	+ 2.7	– 3.1	Mar	+ 0.2	Mar	4.0 Apr	3.4
Belgium	+ 2.0	– 0.3 Q1	+ 1.4	+ 3.1	+ 3.8	Apr	– 2.5	Mar	10.4 May*	10.0
Britain	nil	+ 1.0 Q1	+ 1.8	+ 3.0	– 4.1	Apr	+ 5.4	May	5.2 Apr†	5.0
Canada	+ 6.0	+ 2.1 Q1	+ 2.9	+ 3.6	– 0.6	Mar	+ 5.4	Mar	7.7 May	7.0
Denmark	+ 1.4	+ 1.1 Q1	+ 1.6	+ 2.5	– 0.8	Apr	+ 2.1	Feb	5.0 Apr	5.4
France	+ 1.4	+ 0.3 Q1	+ 1.4	+ 2.9	+ 0.9	May	– 0.6	Apr	9.1 Apr	8.6
Germany	+ 0.7	– 1.2 Q1	+ 0.9	+ 2.7	– 2.0	Apr	– 1.9	Apr	9.7 May‡	9.2
Italy	+ 0.6	+ 0.1 Q1	+ 1.3	+ 2.9	+ 0.5	Apr	– 1.2	Apr	9.0 Jan	9.8
Japan	+ 5.7	– 1.6 Q1	– 0.8	+ 1.2	– 6.1	Apr	– 2.7	Apr	5.2 Apr	4.8
Netherlands	nil	nil Q1	+ 1.4	+ 2.9	– 5.6	Apr	– 0.2	Mar	2.3 May§	1.9
Spain	+ 2.1	+ 2.0 Q1	+ 2.2	+ 3.3	+10.0	Apr	na		11.3 Apr**	10.6
Sweden	+ 1.1	+ 1.1 Q1	+ 1.8	+ 3.0	+ 0.4	Apr	+ 4.7	Apr	3.4 May*	3.5
Switzerland	+ 0.7	+ 0.2 Q1	+ 1.1	+ 2.3	– 1.0	Q4	+ 4.3	Apr	2.5 May*	1.7
United States	+ 5.6	+ 1.5 Q1	+ 2.9	+ 3.5	– 1.6	May	+ 5.7	Apr	5.8 May	4.4
Euro area	+ 0.9	+ 0.1 Q1	+ 1.3	+ 2.9	– 1.2	Apr	+ 2.0	Mar	8.3 Apr**	8.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*									
Finland	– 0.6	– 2.0 Q1	na	na	+ 6.8	Apr	+ 2.0	Mar	11.9 May*	11.3
Greece	na	+ 4.3 Q1	na	na	– 2.0	Feb	+ 8.4	Jan	na	na
Iceland	na	+ 3.1 2001	na	na	+ 3.3	2001	na		2.6 Apr*	1.6
Ireland	na	nil Q4	na	na	– 3.3	Apr	– 0.5	Apr	4.2 May	3.7
Luxembourg	na	+ 3.5 2001	na	na	– 7.1	Mar	+15.3	Jan	2.8 Apr	2.5
New Zealand	+ 2.6	+ 2.9 Q4	na	na	+ 3.5	Q4	+ 8.2	Q1	5.3 Q1	5.4
Norway	– 1.1	+ 1.0 Q1	na	na	+ 3.9	Apr	+ 2.7	May	4.1 Q1	3.7
Portugal	+ 1.8	+ 1.0 Q4	na	na	+ 1.0	Apr	– 0.2	Apr	4.4 Q1*	4.2

*Not seasonally adjusted. †Feb-Apr; claimant count rate 3.1% in May. ‡EU harmonised rate 8.1% in Apr. §Mar-May. **Revised series.

Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

About sponsorship

Prices and wages

Jun 27th 2002
From The Economist print edition

% change at annual rate

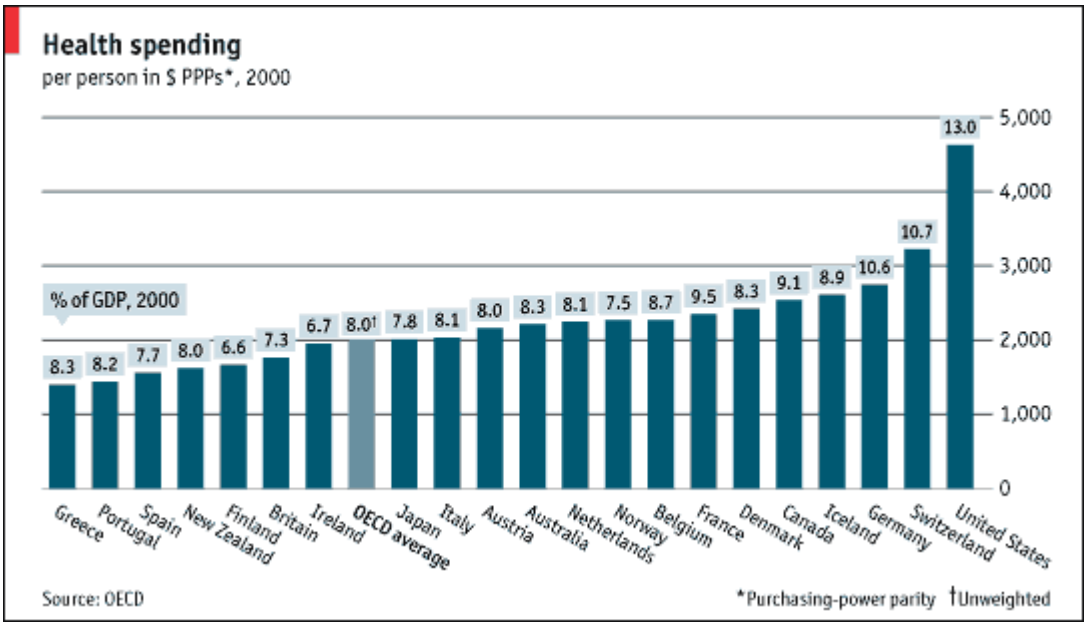
	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 2.9	Q1	+ 6.0	+ 2.6	+ 2.5	+ 0.5	Q1	+ 5.2	+ 4.3	Q1	+ 5.6
Austria	+ 1.9	May	+ 3.4	+ 1.7	+ 1.7	– 0.8	May	+ 3.1	+ 2.4	May	+ 2.7
Belgium	+ 1.3	May	+ 3.1	+ 2.0	+ 1.7	+ 2.4	May	+ 1.7	+ 3.1	Q1	+ 1.9
Britain	+ 1.1	May	+ 2.1	+ 2.1	+ 2.5	+ 0.1	May	+ 0.7	+ 3.3	Apr	+ 5.2
Canada	+ 1.0	May	+ 3.9	+ 1.5	+ 2.1	– 1.5	Apr	+ 2.7	+ 3.3	Mar	+ 1.2
Denmark	+ 2.1	May	+ 2.7	+ 2.4	+ 2.1	– 0.3	May	+ 2.9	+ 4.0	Q1	+ 3.8
France	+ 1.4	May	+ 2.3	+ 1.8	+ 1.5	– 0.7	Apr	+ 3.0	+ 3.9	Q1	+ 4.3
Germany	+ 0.9	Jun	+ 3.1	+ 1.6	+ 1.4	– 1.3	May	+ 4.0	+ 2.1	Apr	+ 1.5
Italy	+ 2.3	May	+ 3.0	+ 2.2	+ 2.1	– 1.2	Apr	+ 4.3	+ 2.6	Apr	+ 2.6
Japan	– 1.1	Apr	– 0.7	– 0.9	– 0.6	– 0.9	May	+ 0.9	+ 0.1	Apr	+ 0.1
Netherlands	+ 3.3	May	+ 4.9	+ 3.6	+ 2.5	– 0.7	Apr	+ 6.2	+ 3.1	Apr	+ 4.6
Spain	+ 3.6	May	+ 4.2	+ 3.1	+ 2.6	+ 0.6	May	+ 2.7	+ 3.7	Q4	na
Sweden	+ 2.0	May	+ 3.0	+ 2.4	+ 2.1	– 0.7	Apr	+ 3.3	+ 4.0	Mar	+ 3.4
Switzerland	+ 0.6	May	+ 1.8	+ 0.8	+ 1.2	– 1.4	May	+ 0.4	+ 2.5	2001	+ 1.3
United States	+ 1.2	May	+ 3.6	+ 1.6	+ 2.3	– 2.7	May	+ 3.9	+ 3.2	May	+ 4.2
Euro area	+ 2.0	May	+ 3.4	+ 2.1	+ 1.8	– 0.7	Apr	+ 4.2	+ 3.0	Q4	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.3	May	+ 3.3	na	na	– 1.6	May	+ 2.1	+ 4.6	Q4	+ 5.0
Greece	+ 3.4	May	+ 3.6	na	na	+ 3.1	Apr	+ 5.1	na		na
Iceland	+ 4.8	Jun	+ 6.8	na	na	+ 7.4	May	+ 5.7	+ 7.5	May	+ 8.0
Ireland	+ 4.7	May	+ 5.4	na	na	+ 1.0	Apr	+ 3.1	+ 8.1	Q4	+ 6.4
Luxembourg	+ 1.9	May	+ 3.3	na	na	– 3.0	Mar	+ 3.9	+ 0.1	Mar	+ 6.7
New Zealand	+ 2.6	Q1	+ 3.1	na	na	+ 2.8	Q1	+ 8.0	+ 2.1	Q1	+ 1.8
Norway	+ 0.4	May	+ 4.3	na	na	–11.3	May	+ 4.6	+ 4.6	Q1	+ 4.4
Portugal	+ 3.3	May	+ 4.8	na	na	– 1.5	Apr	+ 3.2	na		na

Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Health spending

Jun 27th 2002
From The Economist print edition



Health-care spending continues to outpace economic growth in the rich world, according to new figures from the OECD. In 2000, Americans spent more than $4,600 per head on health care, more than twice the OECD average. But wealth does not necessarily buy better health: Americans die earlier than Japanese or Spaniards, who spend far less on health care. Britain still has some way to go to match other European countries.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

About sponsorship

Money and interest rates

Jun 27th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Jun 26th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 1.3	+15.7	Apr	5.05	4.94	5.28	5.87	5.92	6.76‡
Britain	+ 9.0	+ 6.0	May	4.06	5.19	4.50	4.94	5.14	5.90
Canada	+13.6	+ 5.5	May	2.70	4.26	3.82	5.36	5.71	6.87
Denmark	+ 7.3	+ 8.2	Apr	3.80	4.80	4.15	5.07	5.20	6.93
Japan	+31.9	+ 3.5	May	0.02	0.01	0.02	1.27	1.09	1.38
Sweden	+ 2.5	+ 7.3	Apr	4.24	4.31	4.82	5.30	5.28	5.37
Switzerland	+ 4.1	+ 3.0	May	1.22	3.25	1.56	3.10	3.29	3.96
United States	+ 5.9	+ 7.8	May	1.74	3.52	2.71	4.70	5.23	6.76
Euro area†	+ 6.9	+ 7.5	Apr	3.43	4.44	3.89	4.83	4.90	5.85

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. ‡ New series. Benchmarks: US 30-year 5.43%, Japan No.240 1.31%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

About sponsorship

The Economist commodity price index

Jun 27th 2002
From The Economist print edition

1995=100

	Jun 18th	Jun 25th*	% change on one month	% change on one year
Dollar index				
All items	69.7	70.6	+ 2.4	+ 3.6
Food	68.9	70.6	+ 1.9	+ 6.1
Industrials				
All	70.8	70.7	+ 3.1	+ 0.4
Nfa†	72.6	73.5	+ 6.6	+ 6.1
Metals	69.3	68.3	+ 0.1	- 4.2
Sterling index				
All items	74.0	74.3	- 0.2	- 2.2
Euro index				
All items	96.7	95.8	- 2.0	- 8.0
Yen index				
All items	92.4	91.6	+ 0.2	+ 1.9
Gold				
$ per oz	318.95	318.35	- 1.9	+16.0
West Texas Intermediate				
$ per barrel	25.35	26.30	+ 4.9	- 1.5

* Provisional. † Non-food agriculturals.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

About sponsorship

Stockmarkets

Jun 27th 2002
From The Economist print edition

Market indices

	Jun 26th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	3,129.7	3,440.0	3,129.7	- 3.1	- 9.0	- 6.9	+ 2.4
Austria (ATX)	1,232.3	1,357.2	1,114.4	- 0.9	-29.1	+ 8.1	+20.2
Belgium (Bel 20)	2,442.5	2,899.8	2,402.2	- 2.5	-33.7	-12.2	- 2.4
Britain (FTSE 100)	4,531.0	5,323.8	4,531.0	- 2.6	-34.6	-13.2	- 8.9
Canada (Toronto Composite)	7,021.0	7,958.1	7,021.0	- 3.1	-38.4	- 8.7	- 4.1
Denmark (KBX)	198.5	233.4	196.3	- 2.6	-34.2	-11.7	- 1.7
France (SBF 250)	2,474.6	3,081.9	2,465.9	- 5.9	-43.6	-17.0	- 7.7
(CAC 40)	3,701.1	4,688.0	3,669.2	- 6.0	-46.5	-20.0	-11.0
Germany (Xetra DAX)	4,099.1	5,462.6	4,099.1	- 5.9	-49.2	-20.6	-11.7
Italy (BCI)	1,219.0	1,513.0	1,219.0	- 5.6	-44.1	-15.0	- 5.4
Japan (Nikkei 225)	10,074.6	11,979.9	9,420.9	- 3.8	-74.1	- 4.4	+ 5.2
(Topix)	984.3	1,139.4	922.5	- 2.8	-65.9	- 4.6	+ 4.9
Netherlands (AEX)	413.2	531.2	410.7	- 5.9	-41.1	-18.5	- 9.3
Spain (Madrid SE)	701.4	848.1	700.3	- 6.5	-38.8	-14.9	- 5.4
Sweden (Affarsvarlden Gen)	170.9	236.8	166.1	- 3.7	-57.3	-26.1	-16.0
Switzerland (Swiss Market)	5,629.0	6,694.1	5,594.2	- 5.7	-33.1	-12.3	- 1.8
United States (DJIA)	9,120.1	10,635.3	9,120.1	- 4.6	-22.2	- 9.0	- 9.0
(S&P 500)	973.5	1,172.5	973.5	- 4.6	-36.3	-15.2	-15.2
(Nasdaq Comp)	1,429.3	2,059.4	1,424.0	- 4.5	-71.7	-26.7	-26.7
Europe (FTSE Eurotop 300)*	1,026.0	1,279.7	1,022.4	- 4.6	-39.8	-18.6	- 9.5
Euro area (FTSE Ebloc 100)*	878.8	1,125.1	873.6	- 5.4	-43.3	-21.0	-12.1
World (MSCI)†	884.7	1,024.4	884.7	- 3.2	-38.9	na	-11.8
World bond market (Salomon)‡	485.6	485.6	430.3	+ 3.1	+ 5.6	na	+10.4

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

About sponsorship

Trade, exchange rates and budgets

Jun 27th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2002	2003	Exchange rate trade-weighted† Jun 26th	year ago	Currency units per $ Jun 26th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2002‡
Australia	+ 1.0	Apr	− 9.5	Q1	− 3.5	− 3.6	74.8	73.4	1.78	1.93	2.71	1.76	1.49	0.1
Austria	− 2.6	Mar	− 2.5	Apr	− 2.2	− 2.0	100.9	99.9	1.01	1.16	1.54	–	0.85	-0.3
Belgium	+ 12.2	Apr	+ 13.0	Dec	+ 5.1	+ 5.3	100.4	98.3	1.01	1.16	1.54	–	0.85	nil
Britain	− 47.1	Apr	− 25.1	Q4	− 2.2	− 2.1	103.5	107.1	0.66	0.71	–	0.65	0.55	-0.8
Canada	+ 35.6	Apr	+ 14.7	Q1	+ 2.2	+ 2.5	78.1	79.7	1.52	1.52	2.32	1.50	1.28	1.0
Denmark	+ 7.0	Apr	+ 3.5	Apr	+ 1.9	+ 1.9	103.3	101.4	7.50	8.66	11.5	7.43	6.30	2.2
France	+ 7.1	Apr	+ 24.9	Apr	+ 1.7	+ 1.7	103.2	100.8	1.01	1.16	1.54	–	0.85	-2.0
Germany	+ 94.5	Apr	+ 14.9	Apr	+ 0.7	+ 0.8	100.4	97.7	1.01	1.16	1.54	–	0.85	-2.8
Italy	+ 8.3	Apr	− 0.3	Mar	+ 0.1	nil	73.6	72.0	1.01	1.16	1.54	–	0.85	-1.4
Japan	+ 73.5	Apr	+ 97.4	Apr	+ 2.6	+ 2.6	135.5	137.8	119	124	182	118	–	-8.0
Netherlands	+ 22.8	Apr	+ 13.6	Q1	+ 3.7	+ 4.0	99.4	97.1	1.01	1.16	1.54	–	0.85	0.1
Spain	− 37.1	Mar	− 15.3	Mar	− 2.1	− 1.8	75.2	73.7	1.01	1.16	1.54	–	0.85	-0.3
Sweden	+ 14.6	May	+ 7.6	Apr	+ 3.1	+ 3.2	77.8	74.9	9.2	10.7	14.1	9.13	7.74	2.1
Switzerland	+ 2.3	May	+ 24.6	Q4	+ 9.7	+ 9.9	114.3	107.6	1.48	1.77	2.26	1.47	1.25	na
United States	−423.2	Apr	−398.1	Q1	− 4.2	− 4.5	112.3	120.4	–	–	1.53	0.99	0.84	-1.0
Euro area	+ 65.5	Apr	+ 15.1	Mar	+ 0.3	+ 0.4	82.4	77.0	1.01	1.16	1.54	–	0.85	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.1	Apr	+ 7.4	Apr	na	na	79.3	77.5	1.05	1.16	1.60	–	0.88	3.2
Greece	− 19.1	Dec	− 7.2	Dec	na	na	58.1	57.1	1.05	1.16	1.60	–	0.88	0.4
Iceland	+ 0.1	Apr	− 0.4	Q4	na	na	na	na	89.2	103	136	88.4	74.9	-0.5
Ireland	+ 32.5	Mar	− 1.1	Q4	na	na	90.0	86.1	1.05	1.16	1.60	–	0.88	0.1
Luxembourg	− 2.9	Feb	+ 0.9	Q4	na	na	100.4	98.3	1.05	1.16	1.60	–	0.88	2.2
New Zealand	+ 0.2	Apr	− 1.2	Q1	na	na	87.8	79.9	2.05	2.41	3.12	2.03	1.72	0.1
Norway	+ 25.1	May	+ 25.5	Mar	na	na	105.3	96.2	7.72	9.19	11.8	7.64	6.48	14.0
Portugal	− 13.1	Mar	− 9.8	Mar	na	na	90.3	88.8	1.05	1.16	1.60	–	0.88	-2.4

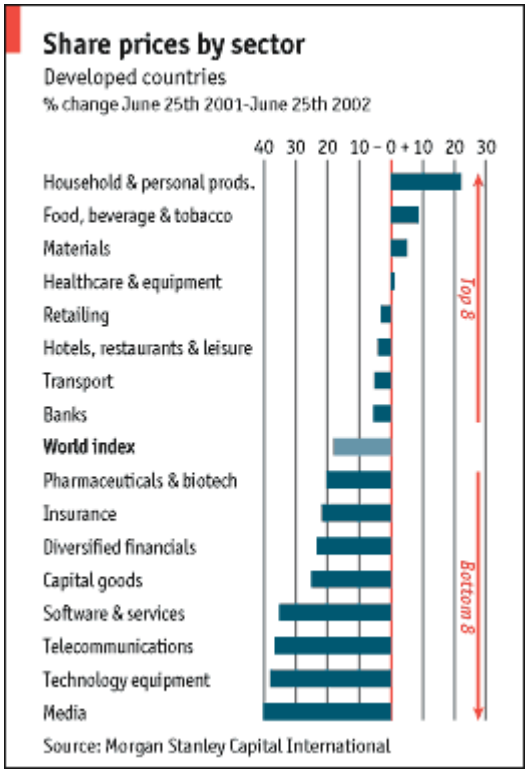
*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD forecast.

Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Share prices by sector

Jun 27th 2002
From The Economist print edition



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Jun 27th 2002
From The Economist print edition

Stockmarkets fell sharply in most emerging-market economies. In **Brazil**, equities fell by 6.9% and the *real* hit new lows. Investors remain jittery about the risk that Brazil might follow Argentina and default on its debts. Equities in **South Korea**, a star performer until recently, also fell by 9.6%.

In **Poland**, the stockmarket also fell by 3.7%. The central bank cut interest rates by half a percentage point to 8.5%, after new figures showed that the economy grew by only 0.5% in the year to the first quarter.

Industrial recovery continues in South-East Asia. In **Singapore**, manufacturing grew by 17% in the year to May. In **Taiwan**, industrial growth was also a buoyant 10.1%.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Oil reserves

Jun 27th 2002
From The Economist print edition

Could Russia challenge the supremacy of the OPEC cartel? Some say yes, noting that it produces about as much oil as Saudi Arabia. Look at reserves, however, and the answer is no: Russia simply does not have enough oil. OPEC members control about three-quarters of the world's reserves. Saudi Arabia alone controls a quarter of the total. In contrast, Russia's share is only around 5%. The OPEC cartel has staying power.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

Jun 27th 2002
From The Economist print edition

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 7.6	Q1	+12.9	May	– 1.1	May	+25.8	May	+21.2	2001§	230.9	Mar
Hong Kong	– 0.9	Q1	– 9.3	Q4	– 3.1	May	– 8.8	Apr	+12.0	Q4	111.3	May
India	+ 6.3	Q4	+ 2.9	Apr	+ 4.7	Apr	– 5.8	Apr	– 0.1	Q4	52.9	May
Indonesia	+ 2.5	Q1	– 2.2	Q3	+12.9	May	+26.6	Apr	+ 8.4	Q3	27.9	May
Malaysia	+ 1.1	Q1	+ 3.8	Apr	+ 1.6	May	+13.5	Apr	+ 6.9	Q4	32.8	Apr
Philippines	+ 3.8	Q1	– 1.2	Mar	+ 3.6	May	+ 2.3	Apr	+ 5.2	Mar	14.4	May
Singapore	– 1.7	Q1	+17.0	May	– 0.3	May	+ 6.1	May	+18.4	Q1	78.2	May
South Korea	+ 5.7	Q1	+ 7.3	Apr	+ 3.0	May	+ 8.9	May	+ 7.0	Apr	109.6	May
Taiwan	+ 0.9	Q1	+10.1	May	– 0.3	May	+18.7	May	+22.0	Q1	139.8	May
Thailand	+ 3.9	Q1	+ 9.2	Apr	+ 0.1	May	+ 4.1	Apr	+ 6.0	Apr	33.7	Apr
Argentina	–16.3	Q1	–14.3	May	+23.0	May	+10.8	Apr	– 4.4	Q4	12.2	Apr
Brazil	– 0.7	Q1	+ 6.0	Apr	+ 7.8	May	+ 4.9	May	–19.0	May	33.0	Apr
Chile	+ 1.5	Q1	+ 6.6	Apr	+ 2.1	May	+ 2.2	May	– 1.0	Q1	15.3	Apr
Colombia	+ 0.5	Q1	–11.0	Mar	+ 5.8	May	+ 0.6	Mar	– 1.7	Q4	10.5	May
Mexico	– 2.0	Q1	+ 8.0	Apr	+ 4.7	May	– 9.2	Apr	–16.8	Q1	45.1	Apr
Peru	+ 7.5	Apr	– 2.4	Mar	+ 0.2	May	– 0.1	Apr	– 1.0	Q1	8.7	May
Venezuela	– 4.2	Q1	–20.0	Mar	+18.3	May	+ 8.0	Q1	+ 1.8	Q1	6.2	Mar
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.5	Mar	– 8.6	Jan	– 0.1	Q4	12.5	Feb
Israel	– 4.2	Q1	– 3.5	Apr	+ 5.5	May	– 5.8	May	– 3.6	Q1	24.3	May
South Africa	+ 2.1	Q1	+12.5	Apr	+ 8.4	May	+ 3.7	Apr	– 0.1	Q1	6.0	Apr
Turkey	–10.4	Q4	+14.1	Apr	+46.2	May	– 8.9	Apr	+ 3.7	Mar	22.0	May
Czech Republic	+ 2.5	Q1	+ 8.2	Apr	+ 2.5	May	– 2.5	May	– 2.4	Q1	20.2	May
Hungary	+ 2.9	Q1	– 0.3	Apr	+ 5.6	May	– 2.3	Apr	– 1.6	Apr	9.8	May
Poland	+ 0.5	Q1	– 4.1	May	+ 1.9	May	–11.1	Apr	– 0.8	Apr	26.4	May
Russia	+ 3.7	Q1	+ 2.8	May	+16.2	May	+44.8	Apr	+31.2	Q1	38.5	May
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	–10.1	Feb	+ 2.9	May	– 1.1	May	+ 0.3	2001†	4.0	Apr
Saudi Arabia	+ 1.2	2001	na		nil	Feb	+44.1	2001	+14.5	2001	17.7	Apr

*Excluding gold, except Singapore; IMF definition. †Year ending June. §Economist Intelligence Unit estimate.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

Jun 27th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jun 26th		Dec 31st 2001	
	Jun 26th	year ago	Jun 26th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.6	na	1,788.3	+13.7	+ 4.4	+ 4.4
Hong Kong	7.80	7.80	11.9	1.80	10,355.9	-3.0	- 9.1	- 9.2
India	48.8	47.0	74.5	6.34	3,180.9	-1.9	- 2.5	- 3.7
Indonesia	8,680	11,395	13,247	16.00	503.5	-5.8	+ 28.4	+ 53.9
Malaysia	3.80	3.80	5.80	3.25	705.0	-5.2	+ 1.3	+ 1.3
Philippines	50.3	52.3	76.8	6.69	1,164.5	-4.6	- 0.3	+ 2.2
Singapore	1.76	1.82	2.69	0.88	1,532.2	-2.1	- 5.6	- 1.2
South Korea	1,194	1,298	1,822	4.89	701.9	-9.6	+ 1.2	+ 11.3
Taiwan	33.5	34.5	51.1	2.25	5,123.0	-5.1	- 7.7	- 3.5
Thailand	41.7	45.2	63.6	2.13	381.2	-6.2	+ 25.5	+ 33.1
Argentina	3.89	1.00	5.94	51.50	334.6	+11.4	+ 13.3	- 70.9
Brazil	2.84	2.33	4.34	18.43	10,690.5	-6.9	- 21.3	- 36.0
Chile	706	625	1,077	3.72	4,994.5	-1.9	- 7.5	- 13.3
Colombia	2,394	2,307	3,653	8.54	1,246.7	-2.2	+ 16.4	+ 10.8
Mexico	10.01	9.04	15.3	7.24	6,171.6	-7.8	- 3.1	- 11.2
Peru	3.51	3.52	5.36	2.70	1,142.9	-3.5	- 2.8	- 4.6
Venezuela	1,311	718	2,000	38.27	7,409.7	-2.0	+ 12.8	- 34.8
Egypt	4.64	3.87	7.08	7.19	5,245.4	-1.2	- 0.5	- 1.9
Israel	4.85	4.17	7.41	4.89	344.0	-2.8	- 23.0	- 30.0
South Africa	10.3	8.04	15.7	12.20	10,464.5	-3.6	+ 0.2	+ 16.7
Turkey	1,647,500	1,254,500	2,514,415	44.00	8,627.4	-8.0	- 37.4	- 44.7
Czech Republic	30.2	39.4	46.1	3.69	414.8	-7.3	+ 5.1	+ 23.8
Hungary	247	282	377	9.26	7,241.5	-6.6	+ 1.5	+ 13.1
Poland	4.05	3.95	6.19	9.03	14,353.8	-3.7	+ 3.1	+ 0.5
Russia	31.5	29.1	48.0	23.00	335.9‡	-6.2	+ 33.3	+ 29.2
EMF (MSCI)*	1.00	1.00	1.53	na	309.4	-5.9	na	- 2.5
EMBI+†	1.00	1.00	1.53	na	197.4	-4.0	na	- 1.5

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; JP Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends*.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.